SKIPPER
Limited

Date: 24th February, 2016

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Mumbai- 400 001

NSE Scrip Name- SKIPPER / BSE Scrip Code- 538562

Sub: **Earnings Concall Transcripts for Q3 FY 2015-16**

Dear Sirs,

We are forwarding herewith Earnings Concall Transcripts for Q3 FY 2015-16.

We request you to kindly take the above on record and oblige.

Thanking you,
Yours faithfully,

For Skipper Limited

Arbind Kumar Jain
Company Secretary
Membership No- A23017

"Skipper Limited Q3 FY-16 Earnings Conference Call"

February 1, 2016

MANAGEMENT:	**MR. DEVESH BANSAL**	–	**DIRECTOR**
	MR. SANJAY AGRAWAL	–	**CHIEF FINANCIAL OFFICER**
	MR. ADITYA DUJARI	–	**INVESTOR RELATIONS**

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

Moderator: Ladies and gentlemen, good day and welcome to the Skipper Limited Q3 FY16 Earnings Conference Call hosted by Asian Market Securities Limited. As a reminder, all participants' 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 telephone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Amber Singhania from Asian Market Securities. Thank you and over to you, sir.

Amber Singhania: Good evening everyone. On behalf of Asian Market, I welcome you all to the Q3 FY16 Earnings Conference Call for Skipper Limited. We have with us today Mr. Devesh Bansal – Director of the company, Mr. Sanjay Agrawal – CFO and Mr. Aditya Dujari – Investor Relations 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 with the question-answer session. Over to you, Devesh Ji.

Devesh Bansal: Good evening, ladies and gentlemen. Thank you for attending this con call and thank you Asian Market for organizing it.

Skipper has reported its 9 months' earnings today and we are happy to report that our growth target of over 20% has been maintained over the 9 months' period and stand at about 22%. On a quarter-to-quarter levels the company has witnessed a growth of over 20% in its volumes however due to lower commodity prices this translated to only a 12% growth in our revenue topline.

The escalation, de-escalation clauses in our contracts prevent any changes in our margins and our operating EBITDA has remained constant at about 14%. On a segmental front, the T&D business, which is grouped under the engineering product segments, grew at a topline of about 20% in volume terms and about 13% in value terms.

The EBITDA margins in this segment have remained stable at close to 14% in spite of volatility in commodity as well as currency. This speaks volumes about the strong and stable business model that the company enjoys in this segment.

On the PVC side, the company has witnessed aggressive growth of over 100% in both the 9 months and quarter-to-quarter numbers. The company has commissioned two new plants for this financial year already. The first one is Ahmedabad and the other one in Guwahati in December.

The third plant in Sikandarabad, which is the North India will be commissioned on the 2nd February that is tomorrow. Efforts are further on to commission the last plant in the phase I expansion plan in Hyderabad within March or April this financial year. The margins in this business have remained more or less stable at close to about 13% EBITDA in spite of major falls in the PVC resin prices. This has been possible due to the introduction of higher margin items in to the product portfolio such as CPVC pipes. The infrastructure segment has witnessed a reduction in topline, which is due to the company being extremely selective about the EPC project that it undertakes. The orders already available with the company are being executed and new tenders in a selective way are being participated in.

I once again thank you all for joining in on the con call. And to welcome any questions that you might have. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session.

Our first question is from the line of Rahul Jain from IIFL. Thank you.

Tarang Bhanushali: This is Tarang from IIFL. Just wanted to understand we have given the order book details for our FY15 and so what is the current status on that?

Devesh Bansal: So generally, the company maintains its order book from a March-to-March perspective. This is because the ordering in mostly the domestic front is skewed towards Q3 and Q4. Q1 and Q2 is usually spent on the tendering process and Q3 and Q4 are when the orders actually come in. So the company normally maintains the order book position on a March-to-March basis. This year Power Grid has deferred its order placement to Q4 instead of Q3, this is because they had large CWIPs and they wanted to finish that off before placing new orders. So we expect a lot of orders to come in, in Q4. Already the company has bid for more than Rs 3,000 crores worth of tenders and we expect a large number of those to be finalized within Q4.

Tarang Bhanushali: So what would be the current status? It would be below Rs. 2,000 crores or?

Devesh Bansal: It would be in excess of Rs. 2,000 crores currently but then we are very confident that by the end of this Fiscal, we will be ending the year with a much higher order book position as compared to last year.

Tarang Bhanushali: And as you mentioned in your opening remarks that revenue was impacted because of lower commodity prices, so even our customer looks at it or the export order the prices are fix then we have to and there we would not see any lower revenues?

Devesh Bansal: So most of our contracts whether domestic or exports are generally they have a built in escalation, de-escalation clause, so the impact could be both on the domestic as well as exports front.

Tarang Bhanushali: And has the execution picked up on the export orders because till previous quarter we were almost from the designing so this is where execution picked over there?

Devesh Bansal: No, in fact in this financial year almost 50% of the revenue till date on the T&D segment has come from export orders from the international business.

Moderator: Thank you. Our next question is from the line of Bhalchandra Shinde from Centrum Broking. Please go ahead.

Bhalchandra Shinde: Sir, regarding the third quarter, if you can share us the volume growth?

Devesh Bansal: So as I mentioned the volume growth have been close to about 20% in the T&D segment but because of the lower commodity prices and the de-escalation clause that comes with it, the value growth has been close to about 13%.

Bhalchandra Shinde: Okay so on an average our gross margins will remain in this levels or we will be passing on whatever the benefits due to the commodity prices we will be passing on to the customers?

Devesh Bansal: Generally, the way the escalation, de-escalation formulas have been structured are margins remains largely consistent. They do not change dramatically in case of falling or increasing prices. So we do not expect any change, as you can see even from the Q3 numbers there has not been any change in our EBITDA number as such.

Bhalchandra Shinde: And sir on the execution front, on overall year levels are you confident of executing of around 20%, 25% growth because what I have heard is like Power Grid is slightly differing on the order off takes. So what kind of scenario you are witnessing right now on the domestic front?

Devesh Bansal: So we started the year with a domestic order book of over Rs. 1,200 crores and overall order book of Rs. 2,450 crores, which was giving us revenue visibility up to FY17. So even if the ordering from Power Grid has been delayed by a couple of months, it does not really affect us to a large extent. Our off take and our revenue visibility is very much consistent and we expect to definitely hit the 20% volume growth in this year itself. We are already operating at 22% and I am sure this will be at on value terms but on volume terms we will definitely be over 20% throughout the year.

Bhalchandra Shinde: Okay and sir in last con call we suggested that our order book may see a growth of around 20% from FY15 levels. So do we still maintain that kind of a confidence on that order book growth?

Devesh Bansal: So because we bid for a large number of tenders over Rs. 3,000 crores have been bid for, until and unless they are awarded, it is very difficult to actually place a number to it. But I mean on a very, very ballpark figure you could say that this 20% increase over our order book should definitely be achievable.

Bhalchandra Shinde: And in sir export front, how you see the order inflows because in FY14 and FY15 we did receive the good export order inflow. So what kind of scenario you build in FY16 and FY17, because I think till nine-month end there was not much substantial order inflow on the export front also?

Devesh Bansal: So already in '14 and '15 we received orders of over $150 million from the Latin American market itself apart from some orders from the European and African regions. The good thing is the execution having started in the LATAM market not only our customer but other customers in that region have also started looking at us as a potential partner and we are in discussions with a large number of them. We are quite confident that although not many large orders have come in in the last nine months but going forward we should be securing good orders in the international space. Not just from LATAM but from Europe and Africa also.

Bhalchandra Shinde: And any chances of repeat order from your existing customers in exports?

Devesh Bansal: Yes, because they are also bidding for contracts from their end. So the moment they are able to secure projects we will be getting the back-to-back orders from them.

Bhalchandra Shinde: And I guess your agreement will end with your Latin America transmission service operator by FY17 end and do you see that agreement to get renewed or there will be again a process of retendering and rebidding for all those projects?

Devesh Bansal: So our relationship with the customers that we are working with right now is extremely strong and they are very, very happy working with us. So we might just see the alliance agreement getting extended at the end of the three-year tenure which like you said ends in the latter part of FY17.

Bhalchandra Shinde: Okay and sir if considering commodity prices stay stable at current levels, what kind of execution growth you see in FY17?

Devesh Bansal: The commodity prices do not really play a big role in our volume growth. So we will definitely still continue to grow at 20% plus. Definitely, because of the lower revenue being generated per ton from the products now, we might see a small dip in our value realizations. But the volume growth will definitely continue at 20% plus.

Bhalchandra Shinde: Okay even in FY17 you expect?

Devesh Bansal: Even in FY17, yes.

Moderator: Thank you. Our next question is from the line of Jignesh Kamani from GMO & Company. Please go ahead.

Jignesh Kamani: Just want to say as you said that our volume growth was close to 20% in the product business and most of the time we consider the product is a variable and we will pass through any increase or decrease in the commodity price. So then our volume growth should translate into EBITDA growth also but our overall EBITDA growth is just 4%. So where is the disconnect?

Devesh Bansal: I am sorry can you just repeat that? Are you considering overall EBITDA or the operating EBITDA?

Jignesh Kamani: No, I am talking about only operating.

Devesh Bansal: So our operating EBITDA has remained consistent at about 13.5% from last year to this year.

Jignesh Kamani: So we follow per kg pricing or is this linked with when you say revenue decline our EBITDA will also decline?

Devesh Bansal: So our EBITDAs are generally the way the formulas are structured in case of the escalation de-escalation clause, the percentages remain more or less consistent.

Jignesh Kamani: So it is not per kg so tomorrow your commodity price decline by say 20% our absolute EBITDA will also decline by 20%?

Devesh Bansal: Yes, I mean we will continue to make the current EBITDA that we are making. It is not that on a per ton basis the realization or the profits will remain the same. So I understand your point that you are thinking that if the commodity prices fall then the EBITDA number should go up proportionately but no, that is not.

Jignesh Kamani: Absolute EBITDA per kg should remain same because it is a pass through?

Devesh Bansal: Correct, because it is a function of a percentage so generally the EBITDA numbers will remain by and large consistent.

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

Nikhil Kothari: Sir, I wanted to ask we have received around Rs. 10 crores in this quarter from export incentives. So which is this scheme and is this sustainable going ahead?

Devesh Bansal: So currently, we are exporting to the Latin American countries as well as some markets in Africa. The Government of India has special focus schemes for these countries. So there is a small amount that comes in as an incentive for export to these countries. So even the last policy change that has happened, it has not impacted that in any major way. So at least for the lifecycle of these contracts we expect it to remain consistent.

Nikhil Kothari: So I mean sir, how the incentives are given as in it is given on based on volumes, based on value so what is it as in calculation?

Sanjay Agrawal: This is Sanjay Agrawal. The incentives are given based on the FOB value of the exports. Whatever be the value of the export it is available on that only as a percentage of the FOB value.

Nikhil Kothari: And sir, recently EPCG has come out with a scheme to ban imports of all capital goods for power generation and transmission. So what are the benefits we are expecting from such ban sir?

Devesh Bansal: It will definitely help the local industries but then in our case which our major products are obviously transmission towers and poles. Import was never a big threat to us anyway. So while it will help definitely other capital goods manufacturers, it might not affect our industry to a large extent.

Nikhil Kothari: And sir in PVC segment, what is the capacity at which we are working at Ahmedabad plant and what is the amount of revenue that we booked from that plant till now in this year?

Devesh Bansal: So Ahmedabad obviously this is the first year of operation. So we are not able to utilize that capacity to a 100%. We are utilizing less than 50% of the capacity currently in this financial year. But then we expect it to increase for the next year.

Nikhil Kothari: Okay and sir what is the revenue that we have booked till now?

Devesh Bansal: So overall in the PVC business our revenues stand at Rs. 96 crores, which is almost a 108% growth over last year.

Nikhil Kothari: And sir from Ahmedabad plant if you can just give me the breakup?

Devesh Bansal: I do not have the exact data with me, off hand but then Ahmedabad is currently operating roughly around 300 to 400 tons a month. So that translates to about revenue of if I can just come back to you with the exact breakup because I do not have the exact plant wise breakup offhand with me.

Moderator: Thank you. Our next question is from the line of Subhankar Ojha from SKS Capital & Research. Please go ahead.

Subhankar Ojha: Sir, I wanted to check with you sir I mean what gives you confidence of closing this financial year with a higher order book compared to last year? I mean in terms of if you can give us a pipeline of orders that you have?

Devesh Bansal: So the tendering that has happened this year as I had mentioned we had already participated in bids of over Rs. 3,000 crores and we are already L1 in a fair amount of tenders. But the orders are officially not being placed on us yet. So considering our previous strike rates, we are very confident that we will be getting a substantial portion of the tenders that we are bidding for. And based on that we are very confident that we will be ending the year with a higher order book as compared to last year.

Subhankar Ojha: So you expect the strong order inflow in Quarter 4?

Devesh Bansal: Yes.

Subhankar Ojha: Which is mainly from Power Grid, right?

Devesh Bansal: Which is mainly from Power Grid on the domestic front, yes.

Subhankar Ojha: And then secondly, I want to check with you in PVC I mean this year we were targeting about Rs. 100 plus crores of revenue is not it I mean?

Devesh Bansal: We were targeting a 100% growth over last year. So last year was at about Rs. 100 crores top line, so we were looking at closing somewhere close to Rs. 200 crores this year.

Subhankar Ojha: Close to, sorry I missed that part, close to?

Devesh Bansal: Close to Rs. 200 crores on a 100% growth.

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

Arjun Goel: Sir, my first question is with regards to the cyclicality what I am trying to understand is that in Q2 the growth has not been much since then. I mean what I understood was that the first half is where tenders are booked and in the second half they are executed. So I mean the will the majority come in Q4 or I mean can you explain why on a sequential basis in fact in engineering products there has been a decline on a quarterly basis? So any sort of explanation?

Devesh Bansal: So that is a good question. Normally you are right. First two quarters are generally the more muted quarters in a year. The reason for that is not so much because of tendering because anyway most of the T&D contracts are long term in nature. But it is more to do with the construction activity at the sites because of rainfall and things like that. Because the company's topline has shifted substantially towards export orders that has not affected us too much this year. So that is why you will see very strong growth in Q1 and Q2 whereas a lot of these export orders will be executed.

Arjun Goel: So as a percentage why is in Q3 we did more domestic versus exports was compared to Q2 would that be right?

Devesh Bansal: Yes.

Arjun Goel: Sir, another thing is that there is this un-allocable expenditure of Rs. 9 crores, which is significantly higher in the segmental breakup Rs. 9 crores versus Rs. 3 crores and even the other expenses is Rs. 78 crores versus Rs. 42 crores, Rs. 43 crores on a YoY. So what is can you throw some light on what exactly is these expenses?

Devesh Bansal: The un-allocable expenditure has increased because of certain corporate expenses, which are actually not directly related to any of the segmental groups. So those are actually shown as the un-allocable expenditure.

Arjun Goel: Right but I mean going forward can we expect those number to go higher or?

Devesh Bansal: Not much higher, the numbers will go up because this year again from last year there is a growth in terms of the volume and a lots of corporate activities are going on. So that is why there is a higher number in terms of the un-allocable expenditures which are not exactly allocable to any of the product groups. Like corporate salary and all these things. This other expenditure as you are talking about from Rs. 42 crores to Rs. 78 crores, that actually includes a lot of amount regarding the transportation cost for the exports.

Arjun Goel: Another thing sir, is that there is a lot of bad news so to speak coming out of South America in terms of Brazil or macroeconomic. So are you facing any heat in terms of export orders coming from South America?

Devesh Bansal: Look generally the way we look at it, most transmission projects specially are usually very, very long term in nature in the sense that they get planned quite a bit in advance and the execution of course also takes time and these are anyway very long gestation period projects. So normally, fluctuations in the economic conditions in any particular country do not have a major bearing on such projects. There might again be a delay of a couple of months here and there but then generally these projects do not get shelved or canned unless there is a major problem somewhere. So we have not really seen any major disturbances on this front till now.

Arjun Goel: And sir, in your PVC segment sir, what do you think would be the steady state margins going forward I mean given the prices coming off significantly? So I mean what according to you would be a fair guess?

Devesh Bansal: PVC of course is going through a very, very dynamic stage in our company as well with the introduction of a lot of new high margin products such as say PVC and the fittings range there is a positive pull towards the margins. That being said with the new markets that we are entering, there is obviously a market penetration cost that we are paying in these markets which is pulling down the margin slightly. So the net effect of this is yet to be seen. Quarter 4 is the largest quarter for the company in the PVC business. But really how it plays out remains to be seen. My personal guess would be that we might just see a maybe a 1% or 2% fluctuation on the negative side in the PVC EBITDA numbers in this financial year at least.

Arjun Goel: And sir, I mean the cycle of the entire business if I were to look at it, it is about 40% is executed in Q4 on a base of the entire year. So do you think you would be able to replicate the same performance this year in Q4?

Devesh Bansal: You are talking about the PVC business?

Arjun Goel: PVC and engineering products I mean I think?

Devesh Bansal: Yes, I mean that has been the trend for many years now and a lot of construction activity gets really pushed forward in Q4 and customers also look to complete as much delivery of materials to the site as much as possible. So yes, Q4 is going to be a very, very strong quarter. On the PVC front with the additional capacity that the company now has, we are also fairly confident of seeing good volumes coming.

Moderator: Thank you. Our next question is from the line of Sanjeev Kumar Panda. Please go ahead.

Sanjeev Kumar Panda: Regarding other expenditure that we have seen substantial jump, is it anything to do with our export related stuff or it is a one time is there includes any one time because even substantial jump in other expenditure?

Devesh Bansal: This is not a one-time expenditure, this is totally related to our revenue and mainly related to the export side, wherein I clarified earlier also this is mainly related to the freight and other handling cost which are basically the part of our export sales.

Sanjeev Kumar Panda: So going forward, I mean this will be in continual basis this kind of other expenditure will continue?

Devesh Bansal: This is totally based on the number of export volumes we are going to execute. It is totally linked with the export sales.

Sanjeev Kumar Panda: Right and the other operating income I think in your presentation you have included the other operating income that is the export incentive in part of your benefit out of EBITDA and that is how we have arrived at 13.7%, am I right?

Devesh Bansal: Right, since it is totally related to the export only and related to the sales, this has arising only after the sales is happening. This is totally linked to sales. That is why it has been considered as operating EBITDA.

Sanjeev Kumar Panda: Okay and another thing regarding the PVC sales regarding transmission line we have got a good quite a bit questions before and clarity. Regarding PVC if you can help us to understand like how this year fine next year you are going to plan out in terms of top line that you see and the kind of capacity additions how things are happening? If you can give us some guidance, it would be really helpful?

Devesh Bansal: So till Quarter 3 we have already seen very good growth in PVC business. Coming from a low base effect this growth of 100% is still quite aggressive and going forward we are definitely looking at expanding capacities in some of our strong regions like East and North East. Region such as West might not see capacity expansion immediately because they are anyway running at a slightly lower capacity utilization over there. And regions such as North which is getting commissioned tomorrow and South which will be commissioned by the later part of this year there it will really depend on how the market accepts our products and how much we are able to penetrate into the market. Only then can we actually start discussing Phase 2 of expansions.

Moderator: Thank you. Our next question is from the line of Mayur Patel from DSP Black Rock. Please go ahead.

Mayur Patel: So on the volume side 20% growth target is fine but on the value side after the commodity we have been seeing what is your target for this year? Where I am coming from is 4Q of last year was very heavy with Rs. 500 crores of sales so on that basis is it possible to grow in this quarter or commodity prices would offset the impact of volume growth?

Devesh Bansal: As we had discussed earlier, on the volume front we are definitely going to expand or in line with the targets that we had said of over 20%. The nine month numbers on the revenue side are at around the 22% growth. Going forward if the commodity prices remain as low as they are right now, we might just see Quarter 4 bring down the revenue the value terms it might just reduce our we might have to revise our 20% growth target by maybe a couple of percentages if the commodity prices do not correct again.

Mayur Patel: This is applicable to both engineering and PVC?

Devesh Bansal: In PVC actually it is more severe because the fall in resin prices has been quite substantial, so we are looking at a larger correction in the value terms of the revenue targets.

Mayur Patel: Okay so like you have done Rs. 97 crores of topline in 9 months so 4Q worst case means what kind of trajectory we should look at?

Devesh Bansal: On our overall growth numbers of overall value growth target of a 100%, we might just see it.

Mayur Patel: Some slippage on that front?

Devesh Bansal: Some slippage on that, maybe in the mid 80% or so.

Mayur Patel: And again coming to the other expenditure thing if I look at the un-allocable expense in 2Q of last year there was a negative Rs. 39 crores whereas this is 2Q of last year 2Q of FY15 was minus Rs. 39 crores?

Devesh Bansal: I will just interrupt you and say that in Q2 of the last year the Rs. 42 crores of the Forex gain was adjusted with the overall unallocated expenditure, which was subsequently regrouped during the current year. So that was inclusive of the Rs. 42 crores of the Forex gain actually.

Mayur Patel: And then again 4Q the March 15 quarter, there is a Rs. 41 crores of un-allocable expense which also looks very high. What was that?

Devesh Bansal: So that was I told you that was because of certain regrouping exercise has been done at that time. So because of that only this is getting reflected in the result.

Mayur Patel: So going forward how should we see this un-allocable overhead?

Devesh Bansal: Un-allocable if you see from the current year we are very much strict about the disclosure of this income from forward contracts as a separate line item. So you will find there is no more anomaly in the un-allocable expenditure side since this is getting taken care of automatically by showing you separately.

Moderator: Thank you. Our next question is from the line of Salil Utagi from Systematix Share & Stocks. Please go ahead.

Salil Utagi: What is our strategy on the distribution of PVC pipes means are we distributing it through the same distributor as of our competitors or are those completely different?

Devesh Bansal: No, so in terms of distribution of PVC pipes, it has to follow the same market where it is already operating in. Most of the dealers and distributors in the market today are multi brand dealers and they generally are stocking maybe three or four different brands. So our objective always is to eat into the share of the premium pipe manufacturers because that is the segment that we play in. So most of the dealers are actually common with some of the other brands.

Salil Utagi: So how are we actually eating into the market share I mean what has been our strategy, offering higher credit or giving better margins or because product wise I think almost all are the top five guys will be the same. Is that correct?

Devesh Bansal: So it is a slightly longer discussion. Maybe we can also have an offline discussion about it. Very briefly I can tell you sir. Obviously as a company, we are offering premium quality products like the other national players are. We are offering a complete range of products right from agri to plumbing to PVC and fittings but that becomes an incentive for channel partners to be attached to us because his TODs and his volumes with the company is increase. Third we are getting people exclusive territory so there is a lot of dealers who now complain that other brands which have been around for a longer time they are appointing dealers in every sort of few meters which is eating into their margins with those brands.

So when we give them exclusive distributorship over certain geography, they prefer pushing our brands because they are able to get better margins in that without us actually giving them more incentives they automatically are able to generate better margins for themselves. But yes, of course as a market penetration strategy we do have to incentivize the channel partners a little bit. So that is the cost that I spoke about initially and then in terms of market penetration we do have to compromise on our margin numbers by a couple of percentages.

Salil Utagi: What is the normalized working capital cycle in this?

Devesh Bansal: In the PVC business we look at a gross cycle of about three months little less than in three months. Our credit days are anywhere between 15 to 20 days.

Salil Utagi: And on the 765 KV versus 400 KV towers, how different would be the price realizations?

Devesh Bansal: More than the price realization it is actually about competition being lower as you go up the higher voltage levels, the competition becomes a little lower. If you operate in a 132 KV segment obviously there is going to be a large number of players who will be there to compete with you and these will also be smaller players. Their margin expectations are also lower. As we go up the value chain you only deal with larger peers and you do not need to actually do a lot of cut throat competition over there.

Salil Utagi: But normally top three, four players will only compete in say in 65 KVS?

Devesh Bansal: Maybe 5 to 7 people but in 132 and all it will be much larger.

Moderator: Thank you. Our next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Just a one, a very quick one. So in terms of your export orders, of the final landed price to the client what percentage of that price would approximately be logistics cost of transporting it from India to there?

Devesh Bansal: So because the transportation that is done is basically on sea freight it is not a very large component. On a net basis it works out to roughly around $80 per ton. So if you compare it to let us say the overall landed price to a customer will be less than maybe about 8% odd.

Utsav Mehta: And what would be the price advantage that you have over some local manufacturers over there?

Devesh Bansal: In transmission towers is a product, which obviously requires the cheapest raw material source as possible. So being located in Eastern India obviously gives us a big advantage on that front. Two, galvanizing is something, which is relatively cheaper in India as compared to most Western countries because it is a red category product or a red category process so it is cheaper to galvanize in India and China as compared to let us say Europe or Latin America. So and of course the labor cost. So lot of these factors combine to make a product out of India much cheaper as compared to let us say a Latin American producer or a European producer.

Utsav Mehta: If you were to give a ballpark in terms of a percentage, so would it be to 20%, 30% cheaper or lower than that?

Devesh Bansal: I would not think I mean it will be a complete ballpark figure would be somewhere around 10%.

Moderator: Thank you. Our next question is from the line of Kunal Nopany from AUM Fund Advisor. Please go ahead.

Kunal Nopany: Can you break up your engineering products revenue for the 9 months for exports versus domestic?

Devesh Bansal: So in the nine months that we have seen, the export revenues versus domestic are almost at around 50%, 50 %.

Kunal Nopany: And how do you see the FY16 mix between exports and domestic?

Devesh Bansal: FY16 mix will continue to be in this range only maybe 40% exports and 60% domestic. In Q4 we are looking at executing slightly more domestic orders.

Moderator: Thank you. Our next question is from the line of Jignesh Kamani from GMO & Company. Please go ahead.

Jignesh Kamani: Sir, just want to understand on the PVC pipe. We used to have a strong hold in the Eastern market and that is one of the reason for high margin in PVC because in the Eastern market competition was slightly weak compared to other market. Now I have understood that Supreme just recently set up a plant in Kharagpur and from there logistic cost is very low and you can easily plant to other large markets in the Eastern market. So do you think that then our competition because the competition margin in the eastern part will come down?

Devesh Bansal: It is correct that Supreme has just recently set up a plant in Kharagpur, which is actually not very far from our current plant. I understand that the plant is going to be commissioned sometime in the next few months from what I am told. But Supreme is extremely strong in Eastern India in one particular product category which is SWR pipes. The agri side and on the inlet plumbing side they are not really a very strong name. So they would have to actually do that effort of working on those product ranges as well and supplement their SWR piping range. So it really depends it remains to be seen how successful they are in being competitive in the other product segments as well.

Jignesh Kamani: Second is what was the state of PVC fitting in our total PVC revenue?

Devesh Bansal: So till last year because we were concentrated mostly on the agri side the fittings contribution to the overall revenue was less than 5%. But this year now with the introduction of CPVC fittings as well as UPVC fittings for the plumbing industry we expect this revenue from the fittings to go up to close to about 15%.

Jignesh Kamani: So in 9 months what will be the share of fittings? It will be 5% only?

Devesh Bansal: No, I am talking about the current year only. In this year we are expecting the fittings contribution to be close to about 15% in FY16.

Jignesh Kamani: Sure and my last question what was your revenue break up of PVC in terms of your agri residential and infra?

Devesh Bansal: This year we are looking at a 25% contribution coming from plumbing and about 75% coming from agri and we are mostly concentrated on we do not segregate it further in plumbing into infra and home building. So on a net level 25% from plumbing and about 75% from agri which we expect will go up to about 40% from plumbing next year.

Moderator: Thank you. Our next question is from the line of Rabindra Nath Nayak from Dolat Capital. Please go ahead.

Rabindra Nath Nayak: Sir, can you please explain the rise in the interest cost, is it gone up by 34% on a QoQ basis, any reason for that?

Devesh Bansal: Rise in the interest cost?

Rabindra Nath Nayak: Yes, of about Rs. 11 crores to Rs. 15 crores?

Devesh Bansal: If you could just say that once again we have just going through the notes once again. You are talking about Q3 over Q2?

Rabindra Nath Nayak: Yes.

Devesh Bansal: Actually this is the number we normally consider based on the quarter-on-quarter basis. So we compare this on the Q3 of the last year versus the Q3 of this year. If you compare that with the Q3 of the last year was may be Rs. 17 crores something and this year it is almost Rs. 2 crores lesser than what we had in the last year. The reason being that being the more turnover we are achieving in the Q3 and Q4 so there is a greater utilization of the working capital and the other loan liabilities.

And also I feel that because of the cyclical nature of the industry wherein lot of activity happens in the later part of the year we do see higher interest cost coming in as compared to Q2 in Q3 and Q4. And we normally compare it from the sales perspective. So this year Q3 it is around 4.2% as compared to the 5.3% in the previous year say corresponding quarter. So on a quarter-to-quarter basis we have actually improved the efficiency and brought the interest component down.

Rabindra Nath Nayak: But sir, last end of Q2 your sales were around Rs. 368 crores net revenue and this quarter it is Rs. 371 crores. So do not you think it is a big jump in that interest cost?

Devesh Bansal: No, not only the sales there is a big jump but certain inventory has also been built up and to feed the quarter 4 numbers also.

Rabindra Nath Nayak: Inventory built up which segment sir, PVC or in the?

Devesh Bansal: In T&D, mostly in T&D.

Management: It is mostly in T&D because this T&D we have the order book position and clear cut visibility we have to built up certain inventories also to cater the quarter 4.

Rabindra Nath Nayak: In terms of the debt what is the working capital debt and what is the term loan you are having currently?

Devesh Bansal: Term loan from banks we are having around Rs. 120 crores and working capital is around Rs. 200 crores.

Rabindra Nath Nayak: And what it was there in Q2?

Devesh Bansal: It is almost same all through the year.

Rabindra Nath Nayak: That means the interest cost has gone up I mean if you take constant?

Devesh Bansal: Yes, because it is we are talking about the closing numbers. But it is getting fluctuating over a period of time. So there might be reason during this for Q2 because this number also includes the bill discounting cost which are getting impacted the interest cost also. We are paying through LC to our vendors that interest cost is also in built in to the interest cost.

Rabindra Nath Nayak: Can you quantify that what is your interest and what is the?

Devesh Bansal: If required then definitely we will take care of this same but right now I do not have the exact breakup of the same. So I will share with you. You please mail to me that. We will definitely put across the same to you.

Moderator: Thank you. Our next question is from the line of Bhalchandra Shinde from Centrum Broking. Please go ahead.

Bhalchandra Shinde: Regarding about our gross margins I would like to further get clarified. It is like our EBIT margins have shown only say around 120 bps improvement in third quarter. But now I would like to know how much commodity prices we have passed through already to the customers? Means out of total decline how much is the exact percentage, which we have transferred it to the customer?

Devesh Bansal: So generally the escalation, de-escalation clauses like why are to pass on the previous month's prices to the customer as per the billing that you are doing in your prices as such. So more or less whatever has been declined till now that has all been passed on.

Bhalchandra Shinde: Is it QoQ basis or it is YoY basis, which will factor in?

Devesh Bansal: It is not on QoQ basis, it is neither on YoY basis. It is based on the delivery schedule and the actual delivery happening. And again it is based on the certain formulas which has been prescribed in the contract itself. Normally while supplying the material a two months prior rate is considered for calculating the prices escalation, de-escalation formula.

Bhalchandra Shinde: So sir, considering that commodity prices stays at current level, how much impact will be there for the fourth quarter?

Devesh Bansal: So like we discussed the volume growth in the business is going to be at close to about 20% but you might have seen that in value terms we might see our growth being slightly 1% or 2% is lower because right now we have the luxury of being at 22% value growth on 9 months. But by the end of quarter 4 we might just see this number getting diluted down to about 18% odd.

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

Prem Khurana: Just wanted to check on this export I mean if I heard you correctly you said almost 50% revenue that you have done in engineering products segment over the last 9 months have come from exports. So if I adjust for these 50% of your revenue that has come from exports which means that domestically we have done only Rs. 420 odd crores as against Rs. 690 odd crores last year so which in effect means mistakenly we are not able to do I mean the execution has been somewhat weak or somewhat muted. So do you think the issues in terms of executing in India or what exactly we experiencing this drop from Rs. 690 odd crores to Rs. 420 odd crores in terms of domestic execution?

Devesh Bansal: So the order book that we have comes with a pre-prescribed execution cycle as well. So it was just a matter of chance that the initial let us say 9 months the delivery cycles included more of exports and less of domestic. But I would say that our customers are in anyway restricting supplies to. It is just how that worked out as per our customers. Now as we mentioned Q4 there is going to be more of domestic supply and lesser of exports. So by the end of this year we will see a split of about 40:60 so that is anticipating of the bidding of the year also.

Prem Khurana: And just to clarify on this value and volume number that you have talked about where you said volume would be almost 20% and value would be somewhat 2%, 3% over than 20%. So this is on full year basis or you are talking about Q3 because I mean if I look at our 3Q numbers we have done 20% kind of volume growth but value growth is only 13% which in a sake means value reduction was almost 7%. So 4Q will also be somewhat similar only in terms of value would be almost 13% and volume would be 20% or above which what they press on it?

Devesh Bansal: It will be slightly different. There has been certain movement in prices in the last one month or so. But then because we are starting the last quarter with a growth of 22% over last year in the first 9 months that is why our estimate that we will be ending the year if the commodity prices remain where they are. So ending the year with an overall growth of about 17% to 18%.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, just coming to you I missed the initial commentary. So sir, how have been the PVC prices over last quarter?

Devesh Bansal: So definitely because of the falling commodity prices, prices have reduced in the end product also. What has also happened is that because of the declining prices a lot channel partners have deferred their purchasing decisions and they were waiting for prices to bottom out before they start buying again. So we would have actually seen a healthier growth in Q3 than the 100% that we have increased. We would have probably seen a larger growth in Q3 but then on the price front prices are definitely declined.

Saket Kapoor: But only the trading part we are doing or we are in to the entire supply chain from PVC regions to the PVC fittings part? Just to have another standing of the business model?

Devesh Bansal: So we are in to the manufacturing of fittings and pipes. So and that is where we mostly operate in. But then obviously because of the falling resin prices the finished products prices also have to be adjusted to match the market expectations.

Saket Kapoor: We are purchasing the resins from which is our supplier, sir?

Devesh Bansal: Domestically we purchase from Reliance but then we also import quite a bit from companies like LG in Korea and Formosa in Taiwan.

Moderator: Thank you. Our next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Just wanted to clarify that one bit on the pass through. So when prices do come down your margins in an absolute amount would not change or is it just a percentage of the overall?

Devesh Bansal: The way the escalation and de-escalation formula were structured generally we find that these percentage margins are protected not so much the per ton margins.

Utsav Mehta: So if the prices correct by say 50% it would your EBITDA would also come down by 50%, the raw material?

Devesh Bansal: EBITDA percentage in value terms, yes but in percentage terms, no. Percentage terms it would remain more or less constant. In that bigger impact we might see I mean we have not considered that scenario we will have to put it on the formula and see. There might be a slight variation here and there but then obviously that is not a realistic scenario with 50% deduction in raw material prices.

Utsav Mehta: And any preference in terms of domestic versus exports?

Devesh Bansal: Not so much. I mean we obviously build for more domestic as well as the exports contracts with the same margin expectations. So really either one coming in exports we obviously do get the extra benefit of the forward hedge that we do which has been almost about Rs. 50 crores plus in the last couple of years. But apart from that the operating margins on both are more or less equal.

Moderator: Thank you. Our last question is from the line of Kaushik, that is an individual investor. Please go ahead.

Kaushik: My question was really on the margins front. If I were to compare your QoQ and even year-on-year EBITDA margins, year-on-year it seems to have come down by more than 100 basis points and similarly on there is probably a sharper drop when I had look at the quarter-on-quarter numbers. If I look at your segment results, then I see that obviously on the PVC front it is more or less flat and it is gone up on the engineering product side. But it is really shrunk big time on the infrastructure projects front. Just wanted a little more color and explanation what is the nature of the business which guides this or is there is something else I mean this is going to be permanent or not?

Devesh Bansal: So just to put in to perspective the infrastructure segment that the company has is obviously a very small segment of the company. The reason why it is small is because the company is a focused manufacturing concern and we do some EPC projects on a very, very selective basis. So we only participate in EPC projects where we are assured of reasonable margins in that project. So the decline in revenues in the infra segment is because whatever projects we have bid for we have not really gotten those in the last year or so and we just been executing whatever order book we had at the beginning of the year. So that is about it.

Kaushik: Which is fair. My question was more on the margin front because if I compare the margins for the infrastructure project segment it has shrunk from almost 37.4% on a PBT basis and it is 19.1% in Q3. So I just wanted to know why it would have dropped if you have been selective in pushing for these projects?

Devesh Bansal: I think so because the numbers are not very big you are talking about a Rs. 5 crores margin in FY15 and Rs. 1.4 crores in FY16. That is why this decline is looking even more sharper than it really is. But then it is probably has to do a lot with lower revenues and obviously the fixed expenses eating in to the margins. So that would be the explanation for the lower margins in infra. You also asked about the lower margins on a quarter-to-quarter basis on the EBITDA level for the engineering products. So on the overall number, so last year on Q3 in FY15 we were at roughly around 14.5% as against 13.5% this year. The reason for that is basically 13.5% to 14% is really the operating margin that the company looks at. Last year during third quarter we were executing certain high value contracts in which short the EBITDA number up to 14.5%. But really a normalized margin that we operate I think anywhere between 13.5% to 14%.

Moderator: Thank you. Due to time constraint, we will close the call and handover the call to Mr. Amber Singhania for closing comments. Please go ahead.

Amber Singhania: I have couple of questions but I will take it offline due to time constraint. I thank you everyone on behalf of Asian Market Securities. I would like to thank all the participants and a special thanks to the management for taking out time for sharing insight about the company and then the history with us. Devesh, would you like to add any closing remarks?

Devesh Bansal: So I was just trying to thank all the participants for taking out time to attend this con call and the company is obviously going very stably in to the targets that it has set for itself. And we expect similar numbers to come both in Q4 as well. Thank you very much and we look forward to interacting again.

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