SKIPPER
Limited

Date: 14th September, 2017

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NSE Scrip Name- SKIPPER / BSE Scrip Code- 538562

Sub: **Concall Transcripts for Q1 FY 2017-18**

Dear Sirs,

We are forwarding herewith Concall Transcripts for Q1 FY 2017-18 held on 6th September, 2017.

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

Thanking you,
Yours faithfully,

For Skipper Limited

Manish Agarwal

Manish Agarwal
Company Secretary & Compliance Officer

“Skipper Limited Q1 FY18 Earnings Conference Call”

September 06, 2017

MANAGEMENT:	**MR. SHARAN BANSAL**	**–**	**DIRECTOR**
	MR. SANJAY AGRAWAL	**–**	**CHIEF FINANCIAL OFFICER**
	MR. ADITYA DUJARI	**–**	**HEAD - INVESTOR RELATION**
ANALYST:	**MR. AMBER SINGHANIA**	**–**	**ASIAN MARKET SECURITIES LTD**

Moderator: Ladies and gentlemen good day and welcome to the Skipper Limited Q1 FY2018 Earnings conference call, hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amber Singhania from Asian Market Securities. Thank you and over to you Sir!

Amber Singhania: Thank you Ali. Going forward everyone. On behalf of Asian Market, I welcome you all for 1Q FY2018 Earning Conference Call for Skipper Limited. We have with us today Mr. Sharan Bansal - Director, Mr. Devesh Bansal - Director, Mr. Sanjay Agrawal - CFO and Mr. Aditya Dujari –Investor Relations Executive from the company's side. We would start with brief update about the Company's quarterly results and future outlook and then we can take it forward for the question and answer session. I now request Mr. Bansal to take us through the quarterly results and your thoughts and then can start with the question and answer session after that. Sharan Ji over to you!

Sharan Bansal: Thank you Amber Ji. Only slight differences that Devesh is not joining us the call today. He is actually traveling to Bombay at the last minute so it is me, Sanjay Ji and Aditya Dujari present on the call. Good afternoon everyone. Thank you for your continued interest in Skipper. My apologies for holding you back a day for the conference call because we finished our board meeting as well as our AGM yesterday. Also I wanted to say that any forward-looking statement made during this call must be reviewed in conjunction with the risk that the industry and our company faces.

I am pleased to inform you that Skipper has delivered a good quarter with robust growth in both revenue and profitability front with EBITDA margins being maintained in the range of FY2018 target. We have successfully completed our migration to Ind-AS standard for the June quarter and as required under the listing norms we have reported Ind-AS compliance profit and loss numbers for both the current and corresponding quarter of last year. I am sure that many of you would have specific queries to get better understanding about the numbers. In this call, we will try our best to resolve all these queries even afterwards you can reach to our F&A team through Aditya.

Coming to the financial highlights, I am happy to report that our sales have grown by over 40%. The gross sales of the company increased to Rs.432.72 Crores from Rs.309.8 Crores in the previous corresponding quarter. Please note that the revenue numbers are now declared based on gross sales and not net sales due to Ind-AS standard.

Growth was primarily led by strong volume getting executed in engineering product business on both domestic and international front as well as sales of some undelivered production carried out in Q4. This was surplus inventory, which we were carrying into this financial year, which got sold in Q1. The EBIDTA rose by over 31% from Rs.39.33 Crores in the previous year to Rs.51.61 Crores in the Q1 of this year and margins have been consistent as 13% plus.

The PBT has increased to Rs.24.76 Crores from Rs.15.49 Crores earlier, registering a growth of 60% and PAT has increased to Rs.15.98 Crores from Rs.10.5 Crores earlier, registering a growth of 52%. On the business front, I am happy to inform that the company continues to secure new orders and in this quarter we have secured orders in excess of Rs.350 Crores for transmission towers and poles supply from domestic and international customers.

The orders have been secured from PGCIL largely for their 800 KV Raigarh-Pugalur HVDC project and from other domestic customers such as TSTRANSCO and UPPTCL and for various export supplies to countries such as Kenya, Nigeria, Nepal and Bangladesh. The order inflow remain quite comfortable although we are witnessing that the execution cycle is continuously coming down, which makes it difficult to obtain larger longer term order as was possible earlier. Also the company in its endeavor to enrich its product mix has forayed into solar structure manufacturing. The production will be executed from the existing Uluberia plant and products to be manufactured a ground base module mountain structure, rooftop mountain structure, module mounting accessories and seasonality structure from the unit.

All latest automated machineries have been installed with appointment of experience and quality manpower. During the quarter in our infra division, we have successfully commissioned two landmark EPC projects including 400 kV D/C Rapp-Kota transmission line for PowerGrid and 400 kV D/C Quad Bhadla-Bikaner transmission line for RRVPN. The commissioning of these two EPC projects now makes Skipper eligible to bid and win new EPC projects on our own.

Coming to the polymer division, the Q1 performance for polymer division was challenging due to a lot of uncertainties mainly due to GST implementation. There was a sense of circumspect and confusion among the challenge partners regarding holding of old stocks and credits. This led to deferment in placing newer orders and led to destocking of their inventory. Considering such challenging circumstance our performance remains muted but the market has started showing some signs of rebound with restocking activity now in place. We expect the market to get back to the normalcy in the coming quarters and are very optimistic about the overall benefits GST will bring to this business. To summarize we are confident of profitable revenue growth of at least 15% on a topline basis and a consistent margin of 13% plus in the current year. Strong order book and robust L1 pipeline gives us good visibility and confidence of achieving this growth. Thank you and now I open to taking any questions that you all has.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

Bhalchandra Shinde: Congrats Sir for good set of results. Sir regarding the actually steel billet prices would like to know how it has changed over the last one year and whatever I guess there is a price variation clause in PowerGrid so there is increase in steel billet prices I can what you lag if as we are able to pass it through the customer?

Sharan Bansal: Thank you for the question. Yes steel billet prices have been going up consistently over the last eight to nine months I would say. Thankfully most of our contracts are with price escalation, de-escalation clauses so we are able to pass on the nearly full impact of this increase to our customers so as such there is no commodity price risk to the company because the fixed price contract that the company has are very, very few.

Bhalchandra Shinde: But Sir Can you quantify how much was the increase in steel billet prices approximately?

Sharan Bansal: You can assume approximately 15% rise in the last eight months.

Bhalchandra Shinde: Okay and Sir in export orders I guess most of the contracts will be fixed price contract so will be see a margin impact temporarily until we execute those orders or there also we can pass on the prices?

Sharan Bansal: No, in export orders also significant portion of our contracts comes with price escalation, de-escalation so we are able to pass on the hike to those customers. Also we have been cautious to start executing the fixed price contracts earlier, so before the majority of the price increases happened. So by and large we are in comfortable position with our existing orders which we have are mostly with PV clauses only so as I mentioned number of fixed price contracts are very, very few and they have largely been executed.

Bhalchandra Shinde: Okay and Sir the monopoles, which we are manufacturing, and we are started catering to the customer, but is the profitability higher in monopoles than our transmission tower products or it is more or less similar?

Sharan Bansal: See the monopole realization value is obviously much higher. In terms of profitability of course it is difficult to put the number to it because the production is quite low right now so unless and until it achieves a significant revenue side it will be difficult to comment on the separate profitability of this product.

Bhalchandra Shinde: So how much will be our percentage of revenue coming from monopoles in engineering products?

Sharan Bansal: Right now is a very low. It is below 5%, but we know in fact that definitely this product has the potential to give much better margins in the future so as the revenue grows in overall product mix for sure we should be seeing better and better margins coming from this product.

Bhalchandra Shinde: But can we say like this in intrastate capex, there will be a higher requirement of monopoles or let us say it is like more related to the smart city related network for?

Sharan Bansal: You are right that definitely monopole are increasingly being adopted for intrastate project because especially 132 and 220 kV lines are concerned, monopoles are more easily adoptable in those voltage level so certainly we should be seeing good demand coming from intrastate. We are seeing some projects already on the ground and of course smart city projects will drive the monopole demand in terms of both overhead line as well as lighting so certainly we expect demand to come from both the quarters.

Bhalchandra Shinde: Entry barrier wise Sir how it is different mean like I guess in PowerGrid we do have that kind of entry barrier at least to some extent about experience and certification approval so I guess in intrastate capex as such no approval is required so even small player can start bidding it. Is this right or no?

Sharan Bansal: No, I do not agree all the qualification requirements, which are there in transmission towers that is very much there in monopoles also so obviously because the number of players in India lesser right now. So obviously there is I would say equal number of entry barriers there in this just like transmission tower and so I would like to add that the kind of manufacturing the monopole requires it is very difficult for a small manufacturer to produce monopole in the first place because the requirement of galvanizing plant is very, very large so honestly I do not really expect any small player to get into this business in the first place.

Bhalchandra Shinde: Sir my last question what is your capex plans for FY2018?

Sharan Bansal: The capex plans for our company for particularly FY2018 is about Rs.85 Crores. Rs.60 Crores will go to our regular increase of capacity in both the businesses in our engineering product business as well as polymer product business and Rs.25 Crores capex will go towards setting of tower testing station, which is what we have planned to take up, this will give us the ability to do vertical load testing of towers and it will boost tower overall engineering strength and qualification in foreign projects.

Bhalchandra Shinde: Thank you very much Sir and I will come back for further questions.

Moderator: Thank you. We take the next question from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: I have two questions. One the solar structure manufacturing, which you have said in the opening remarks so what the opportunity there is and I mean are we going to have incur in new capex for this year what they existing facility will be enough for to get in this business?

Sharan Bansal: Sorry your questions existing capacity?

Shubhankar Ojha: Solar structure manufacturing you says?

Sharan Bansal: Questions whether the production will be done from existing capacity or whether new capacity will get set up that is your questions?

Shubhankar Ojha: Are we going to incur any new capital expenditure for this and how much would that and what is the opportunity like?

Sharan Bansal: I will come to the opportunity question first. So opportunity definitely as you know the government of India has planned to ramp up the solar capacity to total one lakh megawatt from the current 10000 to 12000 megawatt that India has and you can assume that on a per megawatt basis the opportunity approximately 42 to 45 metric tonnes of solar structure so I would think that there lies a large opportunity in terms of solar mountain structure available in India for the next five to seven years till we achieve the figure of one lakh megawatt.

Coming to the capex requirements this is product, which is basically allied to our fabrication and galvanizing capacity so certain amount of our existing galvanizing capacity is going to be used for this production also. We are installing some new lines for particularly producing the solar structure, but again this fall unders our overall capex of engineering products, which we are doing for Rs.30 Crores this year so this is very much apart of that only.

Shubhankar Ojha: Okay and Sir in terms of the order intake in June quarter I could not get that number?

Sharan Bansal: Intake of our Q1 was about Rs.350 Crores.

Shubhankar Ojha: Thank you and all the best.

Moderator: Thank you. We take the next question from the line of Ashutosh Adsare from Sharekhan Limited. Please go ahead.

Ashutosh Adsare: Sir Can you give me like the reduction in the engineering segment PBIT margins why where they were low during this quarter?

Sharan Bansal: I think as I mentioned before that all the numbers of revenue for quarter one are now being declared on gross basis versus net revenue earlier so I think you might be witnessing a reduction on percentage basis because the numbers are being calculated from gross revenue but if you calculate from net revenue basis you will find that the engineering product margins are very much plus of 13%, which is what they have been consistently been for last several quarters.

Ashutosh Adsare: So where the engineering segment margins are impacted by any forward contracts losses during the quarter?

Sharan Bansal: No we do not have any losses in our any of our forward contracts.

Ashutosh Adsare: You said that the PowerGrid orders you are witnessing slowdown in power so which are the other private players giving orders or SEBs referring from tractions. Can you throw some light on that?

Sharan Bansal: Yes we have been witnessing a lot of good traction from the difference state TRANSCO so Telangana TRANSCO has been one of our active customers, same with Andhra TRANSCO and UPPTCL which is Uttar Pradesh Power Transmission Company, they have also been awarding good number of projects to us so I think these states we have been seeing good order inflows and even both Telangana and UP we have seen order inflows in this quarter also. In terms of private opportunities although so far we have not won any significant orders but we are in discussion with the number of them and we are hopeful that in the coming quarters we should see good inflows some private players also.

Ashutosh Adsare: Okay so any L1 orders at this stage?

Sharan Bansal: The order book, which we are declaring includes any L1 orders where we are because we only declare L1 orders once we are absolutely confident of securing the contract so it is after may be after reverse auction has been done or already some LOI has been issued by the customer so only then we declared in our order book so other than that we do not declare any other L1 orders.

Ashutosh Adsare: Okay last question can you quantify the order book size at the end of Q1 FY2018?

Sharan Bansal: At the end of Q1 order book if standing at Rs.2640 Crores.

Ashutosh Adsare: Rs.2640 Crores. That is it from my side.

Moderator: Thank you. We take the next question from the line of Rakesh Roy from Asit C Mehta. Please go ahead.

Rakesh Roy: Sir my first question regarding Sir your PVC segment Sir and PPT your mentioned and right now you have 90% sales from retail and 10% from project. You are going to next two you are saying for 60% from retail and 40% for project business, is there any impact on some working capital and what is the strategy for project Sir?

Aditya Dujari: Most of our direct sales to projects are currently routed through distributors, going forward we will be directly participating in project sales.

Rakesh Roy: Sir is there any strategy for different projection. Can you guide us in strategy Sir?

Sharan Bansal: May be as a detailed question can be taken away Mr. Devesh Bansal at later stage.

Rakesh Roy: Right Sir. Sir can you give us guidance of realization in PVC segment Sir this quarter?

Sharan Bansal: This quarter we have achieved an EBITDA number of about 9.3%.

Rakesh Roy: Realization Sir?

Sharan Bansal: Sorry you mean sales?

Rakesh Roy: Yes.

Sharan Bansal: Sales are declared in the result numbers. The sales were on gross basis.

Rakesh Roy: Sir my question is regarding Sir per metric tonne realization Sir in PVC segment?

Sharan Bansal: Okay per metric tonne realization no that is the specific question we will have to come back.

Sanjay Agrawal: One thing is there actually the polymer division consists of lot of fitting also and that also consists of our PVC products. On an average basis it is very difficult because it ranges from Rs.100 to as high Rs.500 and Rs.600 due to product mix segment per tonne realization varies to a large extent.

Rakesh Roy: Okay Sir. On an average realizations?

Sanjay Agrawal: In average per say normal this plastic agri pipes average realization we may consider at Rs.100.

Rakesh Roy: Rs.100 per kg okay Sir and in utilized level Sir in PVC?

Sanjay Agrawal: Utilization level we have ended with around 50% of our capacity.

Rakesh Roy: In Q1 Sir?

Sanjay Agrawal: Because at all our capacities on year-on-year basis so average sale capacity utilization last year we ended with 50% basis so this year this is being in the first quarter only. We shall be able to give you the detail capacity utilization by the end of the year.

Rakesh Roy: Sir my next question is in PVC segment, your EBITDA margin operating margins on year-on-year is down, any reason behind this and how much GST impact on this Sir?

Sharan Bansal: This is mainly on the account of as I mentioned that due to GST the sales growth has not been as far our expectation and we have a lot of unutilized capacity right now and obviously the capacity has a fixed cost as well so that is the only reason why the margins in PVC are slightly down; however, we do expect that in the coming quarter once the sale volume pickup again then we will see better margins as like the industry average, which is now 14% plus.

Rakesh Roy: Sir right now in PVC segment you have the capacity of 51000 Sir you are mentioning by FY2019 you are going to add one lakh Sir and how much capacity going to add in FY2018 Sir or FY2019 both Sir?

Sharan Bansal: We had projected one lakh target a few years ago by FY2019, but honestly we do not now have a year wise time defined target for achieving one lakh tonne capacity, the medium term target remains one lakh but honestly looking at the current market scenario we would rather grow in business slowly and steadily so if it will probably take some more time to get one lakh tonne segment.

Rakesh Roy: Right Sir. Overall if I see overall not a segment in this one last year and in this Q1 your EBITDA margin is 13.8 right now is 12.9, it has 100-basis come down and one thing I noticed that your other expense is increased on year-on-year basis any reason for other expenses Sir?

Sharan Bansal: I hope you are comparing the EBITDA percentage on gross revenue as I mentioned that this year the revenue has been declared on gross basis not on net basis and last year it was on net basis.

Rakesh Roy: I have readjusted this number Sir, it is 13.8 last year coming and this year is 12.9?

Sharan Bansal: Yes you are right so prime reason for that of course the reduction in margins in Polymer business that is in the main different that has come in and of course may be slight reduction in engineering product also because last year the engineering product for particularly Q1 was much higher than our regular margin, which you see Q1 margin for last year for engineering product was about 14.3%, but our normal guidance for engineering product margins between 13% and 14%.

Rakesh Roy: I think 14% for engineering business.

Sharan Bansal: This quarter we have achieved 13.39% in this segment also, which is as per regular guidance and of course only the last year quarter the EBITDA margin will much higher which is why your witnessing and overall reduction in margin.

Rakesh Roy: Sir this was other expenses increase compared on this one year-on-year basis why Sir because your sales compared to 19% more than 19% Sir?

Sharan Bansal: No that is basically because the export execution has been higher in this quarter and in the export revenues the freight also comes and part of other expenses so that is why the other expenses are showing proportionally higher.

Rakesh Roy: Due to freight cost certain other practicing and other cost?

Sharan Bansal: Freight costs and packaging and they come into other expenses particularly for export, for domestic that does not happen and because the export execution was higher in this quarter and that is why the other expenses have gone up.

Rakesh Roy: Last question in Guwahati plan Sir Utilization level in PVC and tower business Sir it is running at 100%?

Sharan Bansal: No right now it is very low capacity utilization, we do expect the average utilization to pick up in the subsequent quarters.

Rakesh Roy: So how much Sir is that for PVC in Guwahati plant?

Sharan Bansal: I think for towers it will be about less than 20% and for PVC again similar number.

Rakesh Roy: Sir any for future order for any outlook Sir for FY2018?

Sharan Bansal: As I mentioned that order inflow position remains comfortable and this quarter also we had Rs.350 Crores and there are plenty of market opportunities both in domestic as well as exports, but the challenge is of course lower execution cycle for which is why it is difficult to get order which are to be executed over 2.5 to 3 years, which was possible till previously, what we should likely expect that the net order inflow should match overall execution of this year.

Rakesh Roy: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: You mentioned that your target is reached 14% EBITDA margin in PVC business so by when should be expect that?

Sharan Bansal: Well effort obviously to break the gap between us and the market leaders as earlier possible however, this could take at least about two to three years time.

Yash Agarwal: For the next two years or something what should we take as more likely number?

Sharan Bansal: Whatever we are standing as right now that I mean we will definitely be growing every year in this but it hard to define what kind of guidance you can expect.

Yash Agarwal: Sir you mentioned the export sales are higher in Q1 of this year and last year so what would be the percentage contribution of exports in Q1 versus last year?

Sharan Bansal: Execution for export is about 20% in this quarter and corresponding quarter was 15%.

Yash Agarwal: Also sharp increase in other expenses or 50% increases this attributable to these of freight cost or is there any one offs also?

Sharan Bansal: They do come to other expenses.

Yash Agarwal: My question was in shop increases just because of these two factors or is there any other spill off? There are basically two reasons, apart from that there is an increase in the other expenditure in terms of the absolute number, so there is an increase in the overall revenue also, the revenue has also increased by 40% the overall increase in the other expenditure in terms of percentage only about 1.3%?

Sharan Bansal: Yes if you consider the corresponding quarter last year on a other expenditure in a percentage of revenue it is about 18.4%.

Yash Agarwal: Yes and it is 19.8% or something.

Sharan Bansal: **S**o it is not such a major jump considering the increase in exports.

Yash Agarwal: Lastly Sir also debts, has it come down in Q1 or is it at the single level as of March end debt?

Sharan Bansal: On a quarter-on-quarter basis it is difficult to define debt because working capital requirement are different in different quarters. Normally what we expect is that Q4 is when the maximum realization happen and so you will also find that the interest and finance costs are particularly low in Q4, but Q1 and Q2 is normally when the inventory buildup happens, so the working capital requirements are higher in this quarter, so it is difficult to really make any kind of assessment based on debt. Our long-term debts requirements that as I mentioned will only be towards the overall capex plan which we have and there is an effort to constantly reduce the long-term debt number as well because of repayments and because of the additional cash flow of the company.

Yash Agarwal: Lastly one last question new product of the solar structures, what sorts of incremental revenues can we see from this product?

Sharan Bansal: As I mentioned solar structure is part of our overall engineering capacity only, so engineering product capacity as we have been giving a guidance of 15% plus business volume growth every year the solar structure will contribute towards that.

Yash Agarwal: Thank you.

Moderator: Thank you. We will take the next question from the line of H R Gala from Finvest Advisors. Please go ahead.

H R Gala: Congratulation for good set of number Sir. Going ahead for this FY2018 fiscal do you think we can maintain this 40% type of revenue growth that we have seen in Q1?

Sharan Bansal: As I mentioned in my opening remarks the 40% growth is because of a few factors one is that we had about large volume of undelivered production in Q4, which we were carrying.

H R Gala: How much was undelivered?

Sharan Bansal: It was approximately Rs.50, Rs.55 Crores so that was carried over to Q1, which give us a jump of almost 20% I would say and obviously as I have also mentioned that the prices have been going up, so we also had some benefit in increased revenue because of higher prices also. So I think overall we maintain our guidance of 15% business volume growth in FY2018.

H R Gala: What could be the value growth, if the prices are increasing?

Sharan Bansal: So may be the overall the value growth could be in the range of may be 17%, 18%.

H R Gala: That is all.

Sharan Bansal: Yes that is what we expect.

H R Gala: Sir this expenditure you already explained, but in fact that increase itself reflects the reduction in the EBITDA margin of 1.1% or 1.2%, so going ahead do you see, what kind of other expenditure as a percentage of revenue we could treat as a normal level?

Sharan Bansal: If you look at our overall FY2017 numbers this other expense was about 17.45% of overall revenue. Anything between 17% and 18% is what you should expect for the company. This number will always be appearing slightly higher for Q1 because revenues are lower in Q1. So this is always be appearing higher, but on the yearlong basis anywhere between 17% and 18% is comfortable.

H R Gala: Sir last question from myself, can you tell me what is the level of debt now?

Sanjay Agrawal: Level of debt basically the levels we have at the end of the year similar to that only.

H R Gala: More or less similar, so it was something around Rs.430 Crores or something?

Sanjay Agrawal: Right.

H R Gala: Out of that how much is term-loan can you just tell me?

Sanjay Agrawal: The long-term borrowing was around Rs.200 Crores.

H R Gala: Okay and balance is working capital?

Sharan Bansal: Right.

H R Gala: Thank you very much Sir. Wish you all the best.

Moderator: Thank you. We will take the next question from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Good afternoon Sir. Congratulations for the great set of numbers. Sir what is the total projects you have bided for till date?

Sharan Bansal: Total project that we have bided for which we are getting results. The bidding pipeline would be somewhere about Rs.1300 Crores to Rs.1400 Crores.

Dhiral Shah: There was an article, which was there about Northeast and regional coming out with this Rs.11000 Crores, so how true this is right now?

Sharan Bansal: Was this for project transmission project?

Dhiral Shah: Yes power transmission, you know northeastern regional power committee have entrusted powergrid to survey and implement Rs.11000 Crores worth of power project in northeast region?

Sharan Bansal: But this was done last year, so PowerGrid has been tendering some of these tenders already, few of them are already awarded also and rest are under tendering right now. This is not a new development; this is from there since last year.

Dhiral Shah: How much PowerGrid currently tendering?

Sharan Bansal: From this entire Rs.11000 Crores?

Dhiral Shah: Yes.

Sharan Bansal: I do not have the exact number, but I would assume that they have tender of about 50%.

Dhiral Shah: Your current capacity in engineering division stood at 30000 tonnes, so by FY2019 how much it could be?

Sharan Bansal: Every year we are going for about 15% capacity expansion.

Dhiral Shah: 15% capacity expansion and Sir what is the capex figure for FY2019, FY2018 have you stated Rs.80, Rs.85 Crores, so for FY2019 Sir?

Sharan Bansal: FY2019 we are yet to decide any capex as such, but on an average you can assume that in both the businesses normal capex you can assume about 50-60 crores.

Dhiral Shah: Rs.50 Crores to Rs.60 Crores a year?

Sharan Bansal: Both the business put together.

Dhiral Shah: Sir any debt repayment for next two years?

Sharan Bansal: Yes certainly there is scheduled debt repayment.

Sanjay Agrawal: There is a scheduled debt repayment for all our long-term debts and that is also reflected in our balance sheet annual report you might have.

Dhiral Shah: Sir how much every year?

Sanjay Agrawal: Every year it is around Rs.40 to Rs.50 Crores, debt repayment is there.

Dhiral Shah: 40 to 50, okay Sir. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Abhishek Chawla from PA Wealth Advisors. Please go ahead.

Abhishek Chawla: One question from my side was like PowerGrid was contributing around 50% to 51% of the total revenue, the total sales of Skipper Limited, so is there any breakup, is it a bit risky for like client concentration point of view?

Sharan Bansal: No you are saying that is it risky from what point of view?

Abhishek Chawla: Client concentration like in any case adverse conditions like PowerGrid like canceling contractors like in adverse conditions, so is there any backup for the same like for PowerGrid.

Sharan Bansal: If you have been following the company for about two or three years now, four years ago our order concentration was 90% PowerGrid, as of beginning of this financial year above 51% and on the end of this quarter it is 47% and every quarter we do expect that this concentration will further come down because PowerGrid now also have to bid for all the new TBCB projects just like other bidders like Sterlite, Essel, Adani, so automatically the client concentration is coming down; however, that anyway even with that 50% number which is there today PowerGrid is a gold standard customer and we do not expect any kind of risk whatsoever from PowerGrid.

Abhishek Chawla: Thank you. Next question was around the volume growth in the Q1 FY2018, I want to know like volume growth, what is the volume growth?

Sharan Bansal: The volume growth was approximately 15% to 17%.

Abhishek Chawla: You were saying that around the sales was at the 40% and 20% was due to undelivered production in the last Q4 FY2017?

Sharan Bansal: Right.

Abhishek Chawla: Rest of the 20% you were saying from the price escalation clause.

Sharan Bansal: Correct that is why I said volume was about 15% to 17%.

Abhishek Chawla: Thank you.

Moderator: Thank you. We will take the next question from the line of Kalpesh Gothi from Veda Investments. Please go ahead.

Kalpesh Gothi: Good afternoon Sir. Our order book is Rs.264 Crores and our order inflow for the quarter was Rs.350 Crores, what is your target for the full year, for the order inflow?

Sharan Bansal: As I mentioned earlier in the call, we expect the order inflow to be similar to the execution level this year.

Kalpesh Gothi: Sir you spoke about execution cycle is coming down, so what was earlier and what is now?

Sharan Bansal: Earlier the execution cycle was anywhere between 2 and 2.5 years, but nowadays the execution cycle has in some cases that has gone below one year also, you can assume an average execution cycle of about 1.3, 1.4 years.

Kalpesh Gothi: Sir going forward?

Sharan Bansal: I am not sure that this is going to be squeezed further or not, but as of now this is what the cycle is.

Kalpesh Gothi: What is your outlook on the solar structure manufacturing?

Sharan Bansal: We believe that solar sector is a very, very promising sector in India in the future. There is a huge government push for taking up the overall solar capacity to 1 lakh megawatt and as I mentioned earlier that each megawatt of solar power requires about 40 tonnes of solar structures, so definitely there is a huge opportunity in this segment for solar mounting structure.

Kalpesh Gothi: So the plan already for the solar structure?

Sharan Bansal: Yes we have done trial production.

Kalpesh Gothi: Okay so we got few orders?

Sharan Bansal: No not yet.

Kalpesh Gothi: Any sense, what kind of margin we can make in solar structure?

Sharan Bansal: We should definitely target better margins here than our other engineering products.

Kalpesh Gothi: If you see on YOY basis your engineering EBITDA margin has gone down, so what is the reason behind that, are you looking up 13% going forward?

Sharan Bansal: I have explained the reason for the margin reduction already earlier in the call. I request you to go through the transcript please.

Kalpesh Gothi: Thank you.

Moderator: Thank you. We will take the next question from the line of Jaikant Kasturi from Dolat Capital. Please go ahead.

Jaikant Kasturi: Good afternoon Sir. Thank you for the opportunity. As you said there would be a debt repayment at around Rs.40 Crores to Rs.50 odd Crores. Could you give me like a number for in terms of debt addition for this year?

Sanjay Agrawal: This year we have a capex plan of around Rs.85 Crores and the capex will be funded partly by the debt and partly by the internal accruals, so also we do expect the overall number, which was around Rs.200 Crores in the previous year should not increase from that level and there should be some reduction in the overall number.

Jaikant Kasturi: So it would be around that range only that is what you are saying?

Sanjay Agrawal: Like that only.

Jaikant Kasturi: Thank you Sir. Thank you very much.

Moderator: Thank you. We will take the next question from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: Sir the guidance that you gave of this 15% volume growth so that is pertaining only to engineering division right and not to the PVC division?

Sharan Bansal: No that is only engineering division.

Yash Agarwal: So for PVC division what sort of volume or value growth should we expect for the year?

Sharan Bansal: It is a little difficult to predict for the PVC division right now as because the effect of GST has still not worn off completely. As I mentioned we did see a very muted growth in Q1 because of GST effect, so it is difficult to predict when exactly the GST effect is going to wear off completely, so honestly we are not in a position to give any sort of volume and value guidance for PVC right now.

Yash Agarwal: Thank you.

Moderator: Thank you. The next question is from Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Thanks and congrats on a good set of number. Just wanted to understand why our execution cycles are coming down, it has halved if you can share?

Sharan Bansal: Good question. In the transmission space what has happened is that, a lot of transmission demand is right now being driven by renewable energy sources versus thermal resources and as you know the renewable energy plant have a much shorter execution cycle compared to thermal plant where you know thermal plant used to have an execution cycle of 4 to 5 years, the renewable power can come up and sometimes below two years, below one year also, so that is one of the strong reasons why execution cycles have come down. Another reason is that all new projects, which are being awarded are mostly on TBCB basis, so because of that what has happened TBCB projects have a very, very steep penalty clauses, so execution by the TBCB operator is generally very, very focused and ensure do keep the execution within the scheduled time only. These are the two reasons why execution cycles have come down significantly in India.

Chintan Sheth: This reflects in our receivables and inventory cycle as well or that does not have changed much because of execution cycle has reduced basically?

Sharan Bansal: No so receivable and inventory that remains consistent that earlier levels only. There is no change.

Chintan Sheth: So we did not get any benefit of faster execution on our working capital?

Sharan Bansal: The benefit comes from the fact that we do not have any order, contract closure is happening much faster, so let us say there are not too many contracts, which are remaining open for a long-term, those sometimes become painful and we have to service fewer number of projects at one time, otherwise there is a situation and you are serving many, many projects at the same time because project used to be open for a long time and they all used to be going on concurrently.

Chintan Sheth: What percentage of working capital we usually funded through short-term borrowing, any ballpark figure we maintain or it is as and when whatever shortfall we face in the cash flow we try to fund it through bank borrowings?

Sanjay Agrawal: You have asked about why this credit is considered as a short-term borrowing?

Chintan Sheth: Not that, but if I see your short-term borrowing as a proportion. It is around Rs.200 to Rs.50 odd Crores right now and if I see the non-cash working capital of the company it is around Rs.450, Rs.470 odd Crores, so half of which is being funded through short-term borrowing, so is it the trend we usually follow or it is more ad-hoc in nature, given the requirement actually business has or something like that basically?

Sanjay Agrawal: Working capital requirement can be funded through either by way of credit from the vendors or by way of cash credit limits from the bank, these are basically the two options, which anybody can explore of. In our case you will find that partly funded through the credit facilities and partly through the bank finance, so that is the option actually we have and we are carrying out.

Chintan Sheth: Okay, so there is no broader percentage basis you follow?

Sanjay Agrawal: So it is not a matter of percentage, it is a matter of how much credit facilities you are enjoying.

Chintan Sheth: Available with you, okay, sure. Good. Thanks. I will get back in the queue. Thank you.

Moderator: Thank you. The next question is from H R Gala from Finvest Advisors. Please go ahead.

H R Gala: Sir just wanted to know what is the cost of debt the working capital and the term loan?

Sanjay Agrawal: Overall cost of debt is 8% to 9%.

H R Gala: 8% to 9%, okay and how is it different between working capital finance and term loan?

Sanjay Agrawal: There is a mix of working capital as well as mix in the term-loan also. The working capital is funded by way of cash credit itself, then working capital demand loan by way of commercial paper and by way of PCFC credit and in case of term loans these are purely by way of ECB, by way of SMRBTL, by way of INR term loans, it is a mix of all sorts of facilities available in the banking system and that gives us an inch to bring down the cost and this is around 8% to 9% as of now.

H R Gala: As far as the forex operations are concerned since we have got lot of exports how do we hedge the foreign currency risk?

Sanjay Agrawal: Regarding our loan you are talking about or our receivables?

H R Gala: Yes loan, receivables, and payables?

Sanjay Agrawal: Normally whenever we take any loan we do it with a full hedging itself and do consider the cost on full hedge basis that is why my cost seems to be on a higher side.

H R Gala: Higher side, exactly yes.

Sanjay Agrawal: If I could have taken the risk of taking the foreign currency loan on an unhedged basis my foreign currency loan could have been in a range of 3% to 4% only. So we do have that policy to hedge the entire loan itself also and in terms of our export receivables we do hedge the entire receivables at the beginning of the contract itself by way of forward contracts.

H R Gala: By way of forward contracts.

Sanjay Agrawal: We do not keep ourselves open.

H R Gala: As far as the imports are concerned?

Sanjay Agrawal: As far as imports are concerned again in imports most of the imports are fully hedged, it is by way of LC or by way of buyer's credit, most of them are fully hedged. We do hedge both separately, we do not believe in the natural hedging concept.

H R Gala: Exactly you do not do the natural hedging or do you just hedge the net position and you do not do that?

Sanjay Agrawal: Because the natural hedging seems to be very lucrative thing, but practically the implementation is very difficult.

H R Gala: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: Thank you. Sorry to harp on the same question again. On the debt side just wanted to understand like if our debt position is more or less similar compared to Q4, but we are seeing a significant jump on the overall interest cost from Rs.12.4 Crores in Q4 to now Rs16.9 Crores, so is there any one off in this, what exactly are the components on this also if I correlate the same with 8% to 9% of cost on debt it looks slightly higher on this quarter, so if you can just elaborate on the same?

Sanjay Agrawal: Sure, good question Amber Ji. We do try to clear it out in our previous concall also. The overall finance cost does not include only the cost from the debt only, this also includes the certain finance cost, which we have to bear on discounting of the receivables from the customers. We got the payments through LC also, that we need to negotiate with the banks and the cost of that negotiation is getting included in the finance cost itself. As Sharan Sir has mentioned in his opening remarks also that in Q4 normally most of the receivables we get very faster that is why the debt level is getting at the minimum level and the Q1 and Q2 we need to build the inventory and that is basically going to be executed in the subsequent quarter, so that is also one of the reason the interest cost – the finance cost basically has gone up, if you compare this with the finance cost in the corresponding quarter of the previous year actually there is a reduction in the overall finance cost of from Rs.17 Crores to Rs.16 Crores. Another one more factor which we have started from this quarter itself, till FY2017 the finance cost was having only the interest cost, finance cost was bearing only the interest cost, now from this Q1 this finance cost was inclusive of interest cost as well as the bank commission, which we need to pay on the LC and other charges, so which normally the industry trend says the finance cost include all these also.

Amber Singhania: So if you can share the breakup of this – out of this Rs.16.9 Crores how much would be the interest cost and how much would be the other charges?

Sanjay Agrawal: Out of the Rs.16.9 Crores around Rs.15 Crores is towards the interest and balances towards the expense than the bank commission and charges.

Amber Singhania: So on a full year basis should we extrapolate the Q1 number or should we take as a FY2017 as a base on that what would be the better way to look at it in terms of overall interest cost?

Sanjay Agrawal: The FY2017 full year number was including the commission number was around Rs.70 Crores, 61 something was towards the finance interest cost and around Rs.7 Crores towards the BG commissioning and all these, this was around Rs.70 Crores figure in FY2017, you can estimate the FY2017 number as a base number for this year also.

Amber Singhania: Second Sir on the depreciation side if I am not wrong our Guwahati plant got commissioned in Q1 right in April or March last week right?

Sanjay Agrawal: It was last week of March.

Amber Singhania: But the depreciation when I am seeing it is more or less similar to Q1 FY2017 so is there anything change in policy, which has impacted, or it will be going forward in that part?

Sanjay Agrawal: This depreciation is Q1 FY2018 is Rs.10.75 Crores and it was 6.75 in the Q1 FY2017.

Amber Singhania: But Q4 it was again Rs.10 Crores only.

Sanjay Agrawal: Yes because all the capex happened during FY2017 there were three plants, which got capitalized during FY2017 after the Q1 only, and there are two plants capitalized during the FY2017 also and the full depreciation started to come from the FY2017 Q4. So that is why the FY2018 this current Q1 is having the full depreciation target coming in.

Amber Singhania: So more or less Q1 number will be same for throughout the year right, this is the full depreciation?

Sanjay Agrawal: This is the full depreciation. You can assume this into 4 plus any additional depreciation, which we will have the capex during this year.

Amber Singhania: Secondly Sir on the solar side as you mentioned that we are entering on to the solar panel structures are we ready to bid for the projects as of now and what kind of immediate opportunity, we know about the larger opportunity would be 40 gigawatt what government is planning over a period of five year and all, but what is the immediate opportunity we are looking for where we can bid in next let us say two to three quarters per se, if you can just give some color on that?

Sharan Bansal: What is going to happen Amber Ji that we will not be bidding directly as a developer in this project. Our offer will be going to the developer sourcing the structures for their projects after they have won these project or we will be quoting to the EPC contractors who will be winning these projects from the developers, so our supplies will go there, so I do not expect too much of tendering activity happening here because it is mostly through private sector. I expect most of happen through direct negotiation only.

Amber Singhania: Any ballpark number in terms of revenue for us, we might have envisaged for FY2018 or 2019 and 2020 going forward?

Sharan Bansal: Again this is part of overall engineering product basket the idea is that the activities are similar to our other products, which is fabrication and galvanizing so honestly the way we look at it is that we are just looking to enhance our overall product basket basically, So if you see we have started, I mean 10 years ago we were only doing a single product transmission towers and now we have about 7 or 8 different products in our basket. The idea is to keep growing it by one or two products every year, which is in the similar fabrication and galvanizing industry, so honestly since the capacity is also fungible, we can use our existing capacity to cater to this if the demand of this we do see very, very lucrative then we can convert our existing capacity to producing solar structure also.

Amber Singhania: Broadly we will be sticking ourselves towards the power sector only, be it solar or be in monopole or be it, because now we have increased the number of products offering as such, but we will be focusing more on power sector itself?

Sharan Bansal: No I would not say that. We are also catering to the telecom sector or any because we are supplying a lot of telecom towers and telecom poles to the sector, another interesting sector can be lighting, which actually does not fall under power as much it more falls under I would say municipal. The lighting projects are also something where a lot of our poles are going to, so similarly solar were also, yes it is a subset of the power sector, but yes honestly we are not really looking that way we should only expand in the power sector only, I think the thing would be that okay we utilize our existing expertise of fabrication and galvanizing capacities, as well as getting into similar allied industry that would be the bigger focus, in fact another product, which we are shortly going to be getting into is railway electrification that is not exactly in the power sector again.

Amber Singhania: But again railways it will be similar to the transmission tower only right?

Sharan Bansal: Yes it will be yes.

Amber Singhania: When we talk about telecom as a sector does that also work on order book basis or is it more of Me2 sell immediately kind of product or how it is, do we have anything on the current order book from telecom?

Sharan Bansal: Yes we do have some orders and they form part of our order book, so from telecom customers also, of course compared to power probably the numbers are smaller, but yes definitely they are part of our order book.

Amber Singhania: These are also similar to like 12 months or 18 months kind of period order or it is much smaller in?

Sharan Bansal: They are shorter term.

Amber Singhania: Fine Sharan Ji. That is all from my side.

Moderator: Thank you. We will take the last question from the line of Kalpesh Gothi from Veda Investments. Please go ahead.

Kalpesh Gothi: Sir I missed your capex for next year?

Sanjay Agrawal: Capex for next year, FY2018 the current year?

Kalpesh Gothi: FY2019 Sir?

Sanjay Agrawal: FY2019 we have not finalized the capex figures, you can assume that our normal capex every year the running capex is about Rs.60 Crores.

Kalpesh Gothi: In Q1 what was your forex gain or loss in this quarter?

Sanjay Agrawal: The foreign gain or loss is basically muted.

Kalpesh Gothi: There is no gain.

Sanjay Agrawal: There is nominal gain of around 10 million something, but one thing you just need to note that since now the Ind-AS has come into the implementations from this quarter itself all the forex gain and this has to be accounted for on the basis of the closing balance sheet approach.

Kalpesh Gothi: Okay. Thank you Sir.

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

Amber Singhania: Thank you Ali. On behalf of Asian Market I thank everyone for joining this call and a special thanks to the management for providing us insight about the company business and future outlook. We conclude the call, Sharan Ji would you like to add any closing remarks.

Sharan Bansal: Thank you everyone for your patience and we look forward to interacting with you again on the next Q2 conference call.

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