



Dated: 14th February, 2023

The Manager
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C-1, Block-G
Bandra Kurla Complex, Bandra (E)
Mumbai- 400 051
Scrip Name- SKIPPER

The Manager
BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street
Mumbai- 400 001
Scrip Code- 538562

Subject: Transcript of the conference call on Unaudited Financial Results for the Quarter and nine months ended 31st December, 2022

Dear Sir,

In accordance with Regulation 30 read with Schedule III of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we are forwarding herewith the transcript of the conference call with Investors and analysts held on 7th February, 2023 on Unaudited Financial Results of the Company for quarter and nine months ended 31st December, 2022.

We request you to kindly take the aforesaid information on record.

Thanking you,

Yours faithfully,
For Skipper Limited

Anu Singh
Company Secretary & Compliance Officer

Encl: As above

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“Skipper Limited
Q3 FY '23 Earnings Conference Call”
February 07, 2023



MANAGEMENT: **MR. SHARAN BANSAL – DIRECTOR – SKIPPER LIMITED**
MR. SHIV SHANKAR GUPTA – PRESIDENT FINANCE
AND OPERATIONS – SKIPPER LIMITED
MR. ADITYA DUJARI – DEPUTY GENERAL MANAGER
FINANCE AND INVESTOR RELATIONS – SKIPPER
LIMITED

MODERATOR: **MR. MIRAJ SHAH – ARIHANT CAPITAL MARKETS**

Moderator: Ladies and gentlemen, good day, and welcome to Skipper Limited Q3 FY '23 Earnings Conference Call, hosted by Arihant Capital Markets Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Miraj Shah from Arihant Capital Markets. Thank you, and over to you, Mr. Shah.

Miraj Shah: Thank you, Neerav. Hello, and good afternoon to everyone, and thank you for joining the Skipper Limited Q3 Earnings Call. From the management today, we have Mr. Sharan Bansal, the Director of the company; Mr. Shiv Shankar Gupta, President of Finance and Operations; and Mr. Aditya Dujari, Deputy General Manager of Finance, and Investor Relations. Without further ado, I'll hand over the call to Mr. Sharan Bansal for his opening remarks and commentary. Over to you, sir.

Sharan Bansal: Yes. Thank you, Miraj. Good evening to all of you and thank you for your continued interest in Skipper. Please take note, any forward-looking statements made during the call must be reviewed in conjunction with the risk that the industry and company faces. Some of the key operational and financial highlights in comparison to previous year corresponding quarter were as follows. I'm pleased to inform you that we have delivered yet another good quarter with strong revenue performance across our major business segment, in spite of inflationary cost push and geopolitical-related challenges while maintaining healthy operating margins of 11% plus. The net revenue of the company stood at INR 445 crores against INR 400 crores of Q3 and Q3 last year.

The segmented revenue breakout were as follows: Engineering product, INR 337 crores; Polymer would be INR 98 crores; and infra segment, INR 10 crores. We achieved export sales of INR 497 crores in 9 months FY '23, so taking growth of 85% over previous year third quarter and 96% growth in the 9-month period. Our export share in overall engineering revenue stood at 61% in Q3 FY '23 and 48% in 9 months FY '23.

Forex derivative M2M losses arising on account of sharp depreciation of rupee and resulted mainly the decrease of profitability of current year quarter by INR 4.4 crores and a simultaneous increase or gain in profitability number of previous year corresponding period by INR 6.9 crores. The nature of the impact is largely notional; thus, all comparative growth numbers are required to be calculated excluding the effect of forex adjustment for better operational performance understanding and analysis on a like-to-like basis.

Our quarterly operating performance, excluding the impact of notional forex gain or loss, were as follows: Operating EBITDA rose by 22%, the EBITDA increased to INR 49.7 crores again to be INR 40.6 crores. Standalone operating EBITDA margins improved to 11.2% in compared -- comparison to 10.2% in quarter 3 '22 and 11.4% in 9 months FY '23 against 7.7%

in 9 months of last year. Engineering segment operating EBITDA margin improved to 13.3% in comparison to 11.5% in quarter 3 and 13.5% in 9-month FY '23, against 9.7% in 9 months FY '22. So, we dropped the desired margin range now for the last few quarters.

Operating PBT almost doubled to INR 14.8 crores against INR 6.7 crores in third quarter last year. While operating PBT margin at 3.1% for the current year against 1.7% in last year quarter. Our JV Skipper Metzer India LLP engaged in the business of manufacturing of drip and micro irrigation system has turned profitable and reported a PBT of INR 4.7 crores during the quarter.

The consolidated financial results include our portion of same. The consolidated tax increased to INR 9.5 crores against INR 7.3 crores last year, registering a growth of 30% over previous year quarter. Year-to-date 9-month consolidated tax was at INR 11.9 crores against INR 60 lakhs. On the order front, I'm happy to inform you that the current year quarter was the best ever in the company's history.

We secured our largest single order win, valuing INR 2,570 crores, from Bharat Sanchar Nigam Ltd for supply and erection of GBT Towers and subsequent O&M for 5 years, extendable to 5 more years. This is to be executed in the uncovered villages of India under 4G saturation projects. The works are to be executed in the state of Rajasthan and Odisha and include development of approximately 3,350 tower location sites.

The telecom set up to provide 4G connectivity as part of 4G saturation project in area still cover -- uncovered with any sort of mobile communication or are currently having only 2G, 3G connectivity. The total order inflow during the quarter, including BSNL, was INR 2,863 crores during the quarter and 9 months year-to-date included INR 3,727 crores, which is the highest in company history.

The closing engineering order book as of 31st December '22 now stands at INR 4,705 crores and is well diversified across sectors and segments. Tender pipeline for us to participate look deep and the current bidding pipeline remained strong at INR 8,300 crores with international share at INR 5,200 crores and domestic at INR 3,100 crores. The sector continues to witness uptick in both ordering and execution, and the company expects growth to gain further pace with increased participation opportunities across the globe. Just to inform, we are already in advance stage of negotiation some further good size contracts in international markets.

Further, some notable developments on the government policy, which have a positive bearing on company's growth are restoration of RoDTEP scheme in our engineering product business, which will boost our export competitiveness and potentially improve our operational performance. The company will also get eventually benefited from India and Australia free-trade agreement. Our engineering products are now eligible to enjoy preferential market access and duty structure. This will boost our external competitiveness and future growth prospects.

The recent government announcement for transmission system planned for integration of over 500 gigawatts of renewable capacity by 2030, which entails connecting mega solar parks and wind power zones with National Grid Systems and an investment outlay of INR 2.4 lakh crores in domestic transmission projects and construction of over 50,000 circuit kilometres of new transmission lines. This will provide necessary boost to the domestic T&D sector and augurs well for the company's prospects in future years. Thank you, and I'm happy to take your questions now.

Moderator: The first question is from the line of Balasubramanian from Arihant Capital.

Balasubramanian: My first question in terms of forex loss around INR 44 million because of strong depreciation of rupee against dollars. Like could you throw more light on what kind of hedging mechanisms we are using right now? And like this can again happen or this is onetime?

Sharan Bansal: So firstly, the terms of the hedging mechanism that the company follows, we follow a conservative policy of hedging our entire order book with a forward cover on the dollar, and this has been our practice for several years. M2M loss, which you see this quarter is, as I mentioned in my opening remarks, this is largely notional because the realization of these exports' proceeds will come at the elevated dollar level. So as such, we are not concerned with this, and this is part and passing of our business. We would like to continue with the current policy or the hedging policy that the company follows.

Balasubramanian: Sir, my next question regarding exports and engineering. I think it's almost doubled. Which are the countries we are missing traction? Could you share breakup in countrywide, if available?

Sharan Bansal: The export, we're both -- we are seeing in a number of different markets. We are, obviously, exporting to our developing markets such as South Asia, Latin America, Africa, Southeast Asia. In recent times, we have also started seeing traction from developed markets like Australia, West Asia as well as US and Canada. I think with the growing need for renewable power integration, the Indian government is planning large-scale transmission line project. Similar projects are being planned around the world. We integrate more and more renewable power into the grid. So that bodes well for the transmission sector, and we expect to see continuous good demand in the years to come.

Balasubramanian: Yes. Sir, my next question is regarding the order book. The current order book around INR 4,705 crores. Like this order book, like how many months we can able to execute?

Sharan Bansal: Normally, the order book is to be executed over 6 to 7 quarters. We have -- this order book also contains the recently won BSNL order, which is a mix of capex and opex. So, the capex portion, we do expect to complete in 5 to 6 quarters. However, the opex will continue for 5 years after that.

Balasubramanian: So, I think, we have one major orders from BSNL. Right now, in telecom side, capex is growing on -- most of the players are expected to spend around \$2 billion in the next 2 or 3 years. So, we may see more order flow in telecom side?

Sharan Bansal: Yes. Telecom is an interesting market opportunity. We are the largest telecom tower manufacturer in the country. So yes, we expect to see demand for 5G network rollout from all the operators.

Balasubramanian: Sir, like what would be the sustainable margin from segment-wise? If you could share the number?

Sharan Bansal: For our engineering products business, you should expect about 12% margin on a sustained basis.

Balasubramanian: Sir, like we are into like EPC kind of business, like what kind of sustainable working capital cycles we may expect? How we are -- like in terms of how we are fine in terms with vendors as well as our customers.

Sharan Bansal: Your question is about sustainable working capital cycle level.

Balasubramanian: If you would throw some light on in terms of days.

Sharan Bansal: We are targeting to bring our net working capital cash conversion cycle down by 30 days to normal level of 85 to 90 days. So, against last year, total for the full year, it was 120 days. So, we are targeting to bring it down to about 90 days.

Moderator: The next question is from the line of Manish Chopra from Starview Capital.

Manish Chopra: I would like to understand your view on PVC business. How the things are shipping and how the demand environment appears at this point of time?

Sharan Bansal: In the PVC business, we are seeing good growth on the top line. However, this year recall a sharp fall in commodity prices. We have seen some margin correction, and they're also impacted because of the inventory losses in the large fall in PVC prices. However, we expect Polymer revenue and margins to be down from quarter 4 of '23 onwards. A recent correction in prices augurs well for -- from market demand and volume growth.

Now with the operational consolidation benefits of scale and TOT benefits, this is -- all of it come towards a more healthier margins going forward. Also, quarter 4 is, in general, a more robust quarter for the sector with increase in construction activities.

Manish Chopra: And how is the demand environment at this point of time? Are you going to see some inventory losses or inventory gain in this quarter?

Sharan Bansal: I'm not sure about the inventory gain in this quarter. We have booked inventory losses already in the previous quarter. We don't expect any further losses on inventory.

Manish Chopra: And how many number of these inventory you are keeping on their book, sir?

Sharan Bansal: Particularly, are you asking about the PVC business?

Manish Chopra: Yes, sir, PVC side.

Sharan Bansal: Approximately 2 months inventory, 60 days.

Manish Chopra: Sir, are you seeing some government demand largely from the -- like government is focusing on -- largely on the transmission side and especially, on the renewable side? Are you seeing some large orders because the Rajasthan government orders are delayed because of that bird issue? Do you take some...

Sharan Bansal: Yes, yes, [inaudible 0:16:12].

Manish Chopra: Yes. So, do you see some pickup there, sir?

Sharan Bansal: Yes. Now I think -- I believe the issue is resolved now. Government has come out with a clear policy on the same. So certainly, we should see a lot of those tenders -- Rajasthan tenders being finalized now. Having said that, because of our well-diversified market portfolio covering export and domestic, we are not concerned even if there is further delay in ordering in domestic.

Manish Chopra: And on the 4G, if sir, on the BSNL order, what is the -- what are the margins in this particular order, sir? And how is the working capital? What are the news like? Because there are some of the vendors have talked about delaying payments, sir.

Sharan Bansal: We are expecting margins of 10% to 11% in the BSNL order. We -- at the bottom line PBT level, it should be consistent with our overall PBT because the finance cost incidents will be lower due to inventory interest-free advances that we are going to get from the BSNL. We do not expect any payment delays in this project because it is 100% funded by USO fund of the government, and USO fund is INR 55,000 crores strong, which is sitting with the government of India. So, this project is to be 100% funded out of that fund. We do not expect to see any payment delays.

Manish Chopra: And the timeline for execution of INR 4,700 crores order?

Sharan Bansal: As I mentioned to the previous analysts, normally, our order book is to be executed over 5 to 6 quarters. The BSNL contract is up 60-40. 60% is the capex part, which will get executed in 5 to 6 quarters. The opex part, which is 40%, will get built over, which we can execute it in 5 years' time after the capex part is over.

Moderator: Next question is from the line of Jyoti Singh from Magnum Equity.

Jyoti Singh: Sir, my question is on the hedging policy side -- for the hedging policy for forex. So current quarter, 11% EBITDA margin. So, is it sustainable or we are guiding more than this? And since it is one of our best quarters, so what's your view going forward?

Sharan Bansal: Your question is that whether the margin of the company is sustainable at 11%?

Jyoti Singh: Yes. And also, what's our view going forward?

Sharan Bansal: I mean our expectation is that margins will consistently improve every quarter because the 11% margin that we have is inclusive of all our division, Engineering and Polymer. We do expect that Polymer division with -- they are consistently rising sales growth; we'll see better and better EBITDA margin. So, it should likely be that overall company margins will also come closer to 12% plus in line with the Engineering margin. So, we definitely feel 11% is very much sustainable and can be improved upon in the coming quarters.

Jyoti Singh: And so, sir, any number that we are targeting?

Sharan Bansal: We are. Like I said, 12% is a number two target because our Engineering margins, which is the larger portion of our revenue, are at 12% plus. So definitely 12% plus is what we should be targeting for company level as well.

Jyoti Singh: And sir, as we have a good order book, so is there any cancellation term for our order book or this is totally...

Sharan Bansal: No. So, we have approximately -- the 50% of our order book is on with price variation formula, and another 50%, which is on firm basis.

Moderator: The next follow-up question is from the line of Balasubramanian from Arihant Capital.

Balasubramanian: Sir, on the polymer side, like we are focusing to double that retail sales touchpoint. And like in whichever state we are focusing on to expand that -- our touchpoints.

Sharan Bansal: Current retail touchpoint is about 30,000, and we want to scale it up to double this number even this.

Balasubramanian: So, any specific states we are targeting? South, North, like you can throw more light on that?

Sharan Bansal: Northern state and Eastern states, like Jharkhand, Odisha and West Bengal. Other than that, we are also trying to penetrate into certain Indian markets.

Balasubramanian: Sir, on that, like I have looking in the historical financials, like in FY '18, we are focused on domestic markets, I think so. So, after that, the revenues, we have seen a sharp decrease

because of exports. Like if you could throw some light on like what are the things impacted downturn our business?

Sharan Bansal: Yes. So basically, after FY '18, there were not enough opportunities in the domestic transmission business, which was our main stay. Almost 80% of our revenue used to come from domestic T&D. Then we have actively worked to diversify in two ways. One is sectoral diversification. We have been focusing on telecom sector and railway sector very actively, and that has been -- that has worked well for us, leading up to this BSNL contract. And also, we have increased our focus very much on geographical diversification, catering to more and more export markets and more and more export customers. So currently, Skipper has active exports to 50-plus countries around the world, and that number is growing every quarter. So that is what we have been focusing on since FY '18. Sectorial diversification as well as geographical diversification.

Balasubramanian: Sir, on the telecom side, Jio, Airtel, these players are also our customers. So, what kind of opportunities from these players?

Sharan Bansal: Could you repeat your question, please?

Balasubramanian: Sir, on the telecom side, Jio, Airtel, these players are also our customers. If there are -- what are the opportunities from these players?

Sharan Bansal: Jio is an active customer of ours in the telecom space. Airtel largely buy tower. They get their tower store for Indus towers. So, Indus is our customer as well.

Balasubramanian: Sir, on that Guwahati plant, like having some tax exemption. So, what kind of amount, like tax, we can able to save like if you could throw more light on that?

Sharan Bansal: On the income tax side?

Balasubramanian: Sir the tax exemptions in Guwahati plant.

Sharan Bansal: The tax exemption in Guwahati plant actually.

Balasubramanian: Yes, sir.

Sharan Bansal: The tax exemption largely are over in the Guwahati plant. So, we are -- again, that -- yes, largely they're over.

Balasubramanian: Sir, on the raw material side, what is the trend on the raw material prices side? Like PVC, this kind of materials, how are the things are right now is going on? Like how it will impact on the margin side?

Sharan Bansal: Raw material side?

- Balasubramanian:** Yes, sir. Yes, sir.
- Sharan Bansal:** So, the raw material prices are largely stable right now, and like I mentioned, 50% of our contracts are with price variation and 50% on firm basis. And even on firm basis, the contract has to be executed over a particular time. We have made certain strategic decisions in terms of carrying higher inventory, etcetera, to cater to the firm price contract. So, we don't see a challenge, any major impact on the margin in the current commodity price scenario.
- Balasubramanian:** Sir, on the project side, like how we are choosing the projects? So, is there any minimum criteria for IRR or like margins level? Like how we are focusing on the project side?
- Sharan Bansal:** Please repeat your question.
- Balasubramanian:** Sir, on the project side, is there any minimum criteria like IRR or margin side? How we are focusing in the projects?
- Sharan Bansal:** So, our strategy for project is very clear. We paid very selectively for EPC projects. And you would have seen anyway, if he makes up about INR 100 crores to INR 200 crores of our topline out of INR 1,800 crores, and we do a targeted approach. And that's why BSNL fits very well in our overall credit framework. And in terms of -- our minimum threshold of margin is actually 12% to 13% EBITDA.
- Balasubramanian:** We are doing like EPC projects for renewable side also? In renewable side, which are the segments that we are focusing on right now?
- Sharan Bansal:** Which are, sorry, what?
- Balasubramanian:** Sir, as you are doing some EPC projects for renewable, sir?
- Sharan Bansal:** Project for renewable?
- Balasubramanian:** Yes, sir.
- Sharan Bansal:** So, the EPC projects that we are doing, again, like I mentioned, we are doing very few EPC projects. Whatever projects we are doing, we are not doing anything on the generation side. We are focused on the transmission side, which cater to renewable growth.
- Balasubramanian:** Sir, right now dependency on power grid has reduced to private players for the transmission. So, if you can throw more light on the competition side, like in the private segment.
- Sharan Bansal:** You want me to throw light on the what part?
- Balasubramanian:** Sir, right now, the dependency on power grid has reduced to private players participation. And so, under private space side, what kind of competition which are likely?

Sharan Bansal: I'm not very clear what kind of competition you're talking about. Eventually, our company's focus is to keep broad basing our geographical presence and sectoral presence. To avoid competition as much as possible and to get our company's margin, I really cannot comment on what kind of competition the private players have with power grid.

Moderator: Next question is from the line of Akshay Kothari from Envision Capital.

Akshay Kothari: Sir, what percentage of our revenue would be from power sector? And how much would be from telecom towers?

Sharan Bansal: Telecom tower currently is low. It's about less than 15% of our engineering business. However, now with the BSNL contract, we do expect telecom tower to be a larger percentage.

Akshay Kothari: And in the engineering -- on the engineering side, the rest will be power or something else?

Sharan Bansal: In the Engineering business, mostly it will be power, and railway to some extent also.

Akshay Kothari: I have a question that on the power side, are we seeing any shift in underground transmission happening or overhead transmission towers will essentially be needed in India? Because what we have been hearing is, underground transmission is also funding, which everyone is looking at.

Sharan Bansal: The underground transmission, any transmission lines in cities or urban areas will get eventually converted to underground transmission. However, you have to keep in mind that underground transmission is almost 6 to 7x more expensive on a per kilometre basis compared to overhead transmission line. So honestly, there is no threat of overhead transmission lines getting 100% replaced by underground transmission. But yes, wherever land prices is a challenge -- land prices wherever are high, and land has a monetizable value, then definitely, we will see underground transmission lines, particularly in cities and urban areas.

Akshay Kothari: Also in India, there is always land acquisition problem, which keeps on happening. So how do you see this?

Sharan Bansal: The land acquisition is a problem in many areas. However, over the years, government has done some positive work. Ministry of Power has specified -- earlier the system used to be only drop compensation, but now many states have adopted Ministry of Power recommendation and are paying up to the 85% value of the land where the tower is installed and 15% of the value of land where the corridor range, that is between the two towers and the line in the hunt.

So yes, so I think it is an ongoing challenge, but it's a challenge in every country that we supply to. Land acquisition and right of way is probably a challenge in even developed countries like US and Australia, probably a bigger challenge in those places. Whereas our transmission line projects are a necessity and policymakers consistently are coming up with better and better ways of installing transmission line in a faster way.



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Akshay Kothari: And in the export market also, underground transmission is not a threat, right?

Sharan Bansal: Anywhere. So underground transmission, like I said, will be done in only areas where the land price is very, very high because the cost differential is 6 to 7x overhead transmission lines.

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

Sharan Bansal: Thank you, Miraj, and thank you to all the participants of the call. We are confident of profitable revenue growth of high double digits and a consistent margin in the current year and expect to cross revenue growth in excess of 25% CAGR the next three financial years on back of strong pending execution of our order book and as well as strong Polymer segment performance. Our diversification into international markets and sectors will help us to take and choose higher margin orders coming our way and provide us the opportunity to be [inaudible 0:33:42] choices across sectors, aiding to continue better margin performance, improve bottom line profitability and capital return ratios in the coming quarters. We appreciate your continued support and look forward to interacting with you again in the next quarter. Thank you very much.

Moderator: Thank you very much. On behalf of Arihant Capital Markets Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.