

Dated: 21st November, 2022

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BSE Ltd
Phiroze Jeejeebhoy Towers, Dalal Street
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Ref: NSE Scrip Code- SKIPPER/ BSE Scrip Code- 538562

Subject: Transcript of the conference call on Unaudited Financial Results for the Quarter and half-year ended 30th September, 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 14th November, 2022 on Unaudited Financial Results of the Company for quarter and half-year ended 30th September, 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



“Skipper Limited Q2 FY23 Earnings Conference Call”

November 14, 2022



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

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

Moderator: Ladies and gentlemen, good day, and welcome to the Skipper Limited Q2 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

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

Miraj Shah: Thank you, ma'am. Good evening, everyone, and welcome to the conference call of Skipper Limited Q2 results. On behalf of Arihant Capital Markets, I welcome you all.

Today from the management side, we have Mr. Sharan Bansal – Director, Mr. Shiv Shankar Gupta – President of Finance and Mr. Aditya Dujari – Deputy General Manager of Finance and Investor Relations.

Now without further ado, I would like to hand over the call to Mr. Sharan Bansal. Over to you, sir.

Sharan Bansal: Thank you, Miraj. Good evening to you all and thank you for your continued interest in Skipper. Please take note that any forward-looking statement made during this call must be reviewed in conjunction with the risks that the industry and the company face.

It feels great to interact back with the investor community over quarterly earnings call. Formally after such a long gap, probably with the work behind our back, company is now confident of delivering strong performance going ahead on back of improved business environment and strong business execution of engineering contract and strong polymer business performance.

Over the past two years, the company concentrated its efforts towards transforming its engineering business from the domestic market as its core stay to a more focused international player with exports as its mainstay and has achieved reasonable success.

The company has established strong working relationships with over 100 global EPC players and utilities and is witnessing a surge in global business. Skipper of now is looked up to as a serious player armed with complete R&D center and tower testing station, thereby further strengthening its brand equity in the global market.

The company's in-house design team adds meaningful value to the project laced with innovative and cost-effective design solution and helps in cost reduction and savings to our customers.

Massive global and domestic focus and investment on building T&D infrastructure catering to renewable is driving up the demand for setting up new transmission networks. As the global focus on renewable energy continues to grow and more and more countries move towards their

goal of reducing their carbon output, many countries will require new transmission lines to be built to cater to a new green energy network. Our global presence puts us in an advantageous position to act upon such opportunities in the coming years.

Further, the company is getting benefited from China Plus One trend. The global supply chain actively scouting to minimize its dependency on China is a great positive outcome of this crisis. The gradual decoupling from China is also causing many projects to seek alternate supply chain giving further (QL 00:03:43) to business potential coming our way.

Also, the recent rupee depreciation and improvement in sea container availability has made us more competitive and is now bringing more opportunity to us. Taking advantage of the market conditions over the last two, three years, Skipper has successfully transformed itself from a predominantly dramatic player to a company with significant export business as its mainstay. Today, Skipper boasts of over 5,400 crore of international bidding pipeline and is well-positioned to grow exports to over 50% of engineering revenue in current year FY23 and to 75% by next year FY24.

The same are now getting reflected in our performance too. The engineering exports for the quarter stood at Rs. 161 crores and Rs. 325 crores for the half-year period. Export share in overall engineering revenue increased to 43% in Q2 FY'23 and 47 % in H1 FY'23. This is a growth of over 40% over the previous year quarter and 103% growth in the H1 period over previous year.

Also, our polymer segment is now attaining scale and size, and will now get benefited from fixed costs getting rationalized over a larger revenue base. The company has achieved its highest ever annual revenue performance in polymer business in FY22 at Rs. 320 crores registering a staggering growth of 48% over previous year FY21 and expect this trend to continue in the ensuing quarter through FY23.

Now coming back to current business performance, some of the key operational and financial highlights in comparison to previous year corresponding quarter were as follows:

I am 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 Rs. 462 crores, against Rs. 479 crores.

The segmental revenue breakup were as follows:

The engineering Rs. 380 crores, polymer Rs. 71 crores and infra segment Rs. 11 crores. FOREX derivatives MTM loss arising on account of sharp depreciation of rupee has resulted mainly in decrease of profitability of the current year quarter by Rs 12.16 crores and a simultaneously increase or gain in profitability number of the previous year corresponding quarter by Rs 6.1 crores. The nature of impact is largely notional. Thus, all comparative growth numbers are

required to be calculated excluding this effect of forex adjustment for better operational performance understanding and analysis on like-to-like basis.

Our quarterly operating performance excluding the impact of notional FOREX gain were as follows:

Operating EBITDA rose by 45%. The EBITDA increased to Rs. 51.97 crores against Rs. 35.82 crores with standalone operating margin increasing to 11.2% against 7.5% over last year corresponding quarter.

The margins of the engineering business are back to their normal historical range of 13% plus, achieving this for the past few quarters with the current quarter rate at 13.3%.

Operating PBT increased to Rs. 19.2 crores against loss of 0.32 crores in quarter two of last year with operating PBT margin at 4.2% for the current year quarter against negative 0.1% last year quarter.

Gross debt level is at 585 crores as on 30th September against Rs. 628 crores last year September '21 and has seen reduction of Rs. 43 crores in spite of higher sales during the H1 period on account of better working capital utilization. Efforts continue on cash flow and balance sheet consolidation. And we are targeting significant debt reduction by March '23.

On the order front, I am happy to inform you that the company had yet another good quarter of inflows. We secured new orders worth excess of Rs. 460 crores for engineering products. These are supply orders from Power Grid Corporation, domestic State Electricity Boards, and private utilities, as well as for various supplies across international customers across Southeast Asia, Africa, Asia Pacific, and Latin America, and Middle East as well.

The YTD inflows stand at Rs. 853 crores with international share at 42%. The closing engineering order book as on 30th September stand at Rs. 2,163 crores and is well-diversified across sectors and segments.

The tender pipeline for us to participate look deep and the current bidding pipeline remains strong at 10,500 crores, highest ever in the company history, spread evenly between domestic and international.

Sector continues to witness uptick in both ordering and execution, and the company expects growth to gain further with increased participation opportunities across the globe. Just to inform, we already are in advances stages of negotiation to secure good side international contracts.

I would also like to inform our investors about increasing opportunities in the telecom space with the upcoming 5G rollouts, as well as investments into BSNL by Government of India which will open up further opportunities in the telecom sector for the company.

To summarize, we are confident of profitable revenue growth of high double-digit with a consistent margin in the current year. A strong order book plus robust bidding pipeline gives us good visibility and confidence of achieving growth.

Thank you, and I am happy to take your questions now.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Abhishek Jain from Arihant Capital Markets. Please go ahead.

Abhishek Jain: Sir, thank you for taking my question. I just want to understand on the PVC side, how things are shaping up? How is the demand environment at this time? And have we taken any inventory hit in this particular quarter? And what would be the stable state margin going forward?

Sharan Bansal: Yes, PVC business, we are seeing good growth opportunities because of various government run schemes like Jal Jeevan Mission etc., and also the company's sustained focus on brand building is giving results. Our dealer and retailer prices had crossed about 26,000 across India. And as I mentioned, the last year, our revenue was a growth of 48% over previous year.

This particular quarter, quarter two, we have faced some challenge in hitting our growth number because of the sharp decline in the PVC commodity prices, which has led to on setting of the market, and there has been some inventory losses as well. However, largely, the impact is covered in this quarter. Quarter three, we expect minimum impact, and since the working season is now here from quarter three, quarter four, we do expect growth numbers to come back from next quarter.

Abhishek Jain: Any guideline on the margin and how we see margins going forward, sir?

Sharan Bansal: Margins this year, you see, margin guidance will also be muted due to overhang of inventory loss. However, the revenue growth will be good.

Abhishek Jain: And second thing, sir, on the international export side, what is happening right now at this point of time, and going forward, if you have, what is your outlook on the export side?

Sharan Bansal: As I mentioned in my opening comments, international export side, there are plenty of opportunities. A lot of almost all countries have renewable targets to meet, and for that investment in T&D is quite prominent. Telecom investments are also happening in various 4G and 5G networks. So, both the sectors are doing very well for the company, as we can see that in the order inflow for the quarter one and quarter two combined, for H1 basically, we saw that exports were almost 42 to 43% of the total order inflow. If you remember about three years ago, company had approximately 80% domestic and 20% export sales ratio, which is now gradually moving towards 60-40, 60% domestic and 40% export. The target will be as I mentioned to move towards 50-50 by the end of this year, and a higher number for exports next year.

Abhishek Jain: Sir, same question with what will be that, like, how we means like within the PVC side we have large players, one of the largest player in PVC in the Eastern market. What is the current market share? And can you throw some light on the current utilization on the CAPEX side also?

Sharan Bansal: I am sorry. I am not able to hear the question clearly. Could you please repeat?

Abhishek Jain: So, what is the market share in the Eastern market in the PVC segment at this point of time?

Sharan Bansal: I don't have those. We are still all across India.

Abhishek Jain: Sir, one question last let me like on the domestic side, how is the ordering from Power Grid is happening? And what are the other companies like (**Inaudible**) 15:57? So, how the order pipeline at this point of time?

Sharan Bansal: There is a lot of bidding going on in domestic, but the ordering has been muted, especially in the large transmission line project, which generally we are our focus area. However, there is good opportunity on the telecom side at the domestic sector because of 5G rollouts number almost is expected that 200,000 to 300,000 new telecom towers will be installed for the 5G rollout. And also government has taken an ambitious investment plan into BSNL. So, I would say that domestic should be strong at the combination of transmission and telecom opportunities.

Moderator: Thank you. We have the next question from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Good evening, everybody. My first question was if you could tell us a little bit more about your plans to begin with in the second half, which you mentioned briefly in your opening remarks that you are seeing some reduction in the overall debt level. So, if you could tell us in the second half what kind of transactions we are looking at and more from a two to three years' perspective, what type of reduction we are looking and the reduction in finance cost we are targeting?

Sharan Bansal: You are asking about the plan for debt reduction and?

Sachin Kasera: The reduction in finance cost?

Sharan Bansal: Reduction in finance cost, okay. So, as you might have noticed that we have done quite well on reduction of finance cost with about achieving 100 basis point reduction in finance cost for the quarter as compared to previous quarter, and in terms of debt, we have brought down our absolute debt number from earlier last year September 628 crores and this year September it's 585 crores. So, despite the increase in sales, we have brought down the overall debt number as well. So, this trend will continue as we improve profitability of the company keeps improving quarter-on-quarter. Of course, we are also targeting high revenue growth. So, the short-term working capital requirement will be proportionately going up, but I would say that overall efficiency we will see that okay, we will not if at all the debt number should either remain flat or we may see some reduction in that.

Sachin Kasera: So, the way to summarize that is the interest cost may remain there itself and the EBITDA overall could work with the debt remaining at the same level. That's what you are trying to.

Sharan Bansal: That's right. Absolutely.

Sachin Kasera: Second thing was in terms of your polymer business, what type of plans we have for the next two, three years? We went to this TOC implementation because of which, you know, our overall revenue took some sort of you can say correction over a two, three-year period till the time we implemented it. The markets have grown a lot since then. So, if you could tell us in terms of our aspiration for market share both first in the Eastern India basis and secondly all India basis in the next two, three years (**Inaudible 00:19:53**)?

Sharan Bansal: We do have ambitious plans in the PVC business. The TOC implementation has been very successful for us, and it helped us achieve retailer growth of 25,000 retailers plus. So, certainly barring this quarter two where the impact of the sharp decrease in commodity prices has hit us. Otherwise, the growth last year was quite robust as I had mentioned, and we expect similar growth to achieve a top line of 1,000 crores in the next two years' time.

Sachin Kasera: And just for our calculation purpose, can you share us the volume numbers? What type of volume we had done because the PVC prices are volatile, right? They moved from 90 to 117, back from 117 to now Rs. 70 a Kg. So, just firstly, you know, understanding to get a perspective on the polymer business, can you share with us the volume, the type of volume numbers you have done in last year and what we are looking this year and the next two, three years because this 1,000 crores number could vary depending on the price of the PVC?

Sharan Bansal: I don't have the volume data readily available, but we can check and Aditya can come back to you on this later.

Sachin Kasera: Secondly, in terms of the product mix, what is the share of fittings today and how do we see that ratio moving up?

Sharan Bansal: What is the mix of fittings?

Sachin Kasera: Yes, fittings, yes.

Sharan Bansal: The current mix is about 70% on the plumbing side and 30% agri, which plumbing would be something around 40% of that would be fittings.

Sachin Kasera: And lastly, if you could tell us your plans in terms of one of the things that we did is increase the share of exports, but in terms of the non-T&D what type of targets are we looking at so as to reduce the overall risk on the domestic T&D in the next two, three years?

Sharan Bansal: As I mentioned, telecom is looking like a very strong opportunity both on the 5G rollout as well as the BSNL expansion plan. So, telecom is definitely a strong area. Railway continues to do

well for us. So, these two are the promising non-T&D sectors. Apart from these, of course, there is solar and highway crash barrier for us also, although these are relatively much smaller portions of our order book.

Sachin Kasera: In two, three years, what could be the share of the non-T&D revenues that we could look at?

Sharan Bansal: We look at about 20%.

Sachin Kasera: Sorry?

Sharan Bansal: About 20%.

Sachin Kasera: 2-0, 20, right?

Sharan Bansal: Yes, 2-0, 20.

Sachin Kasera: The last question in terms of the raw material, in the presentation you have mentioned that, you know, in the previous quarter, the profitability was impacted because of the sharp increase in raw material prices and now it should improve now because of the new contracts prices when the prices were higher and now the rate has come down. And from a little medium to long-term basis, you know, for example, if the raw material prices always start going up again, is it that for couple of quarters we see improvement in margins, and again from Q1, we start to see impact? So, how are we looking in terms of derisking this entire model so that the volatility in the RM prices either going up or down does not impact our margins, you know, beyond a point, and we are able to consistently report stable and good margins?

Sharan Bansal: It's a good question. So, definitely, what we are doing? We are adopting multiple strategies, and some of them are detailed in the investor presentation. If you go through slide number, it's not there. Okay. In the previous investor Q1 presentation, it was mentioned. So, we are adopting various strategies for covering ourselves better for the firm price contracts, and these include strategies like hedging, as well as strategies like having a larger share of inventory to cover those firm price contracts. So, certainly, we are conscious of the fact that the company needs to protect its margin in the event that prices go up again sharply. But I think, definitely, with this strategy, we are in a much better position for future contracts. We are also able to negotiate better contracts with our customers, and in the case of abnormal price increase etc., have those clauses in our selling contracts that customers will renegotiate, you know, in the case of abnormal price movement.

Moderator: Thank you. We have the next question from the line of Sanket Goradia from RS Investment. Please go ahead.

Sanket Goradia: Thank you for the opportunity. To start with, can we get some sense in the management on, you know, how we should look at the business two to three years out in terms of revenue mix?

- Sharan Bansal:** Are you asking between exports and domestic? Or revenue mix across segments?
- Sanket Goradia:** Across segments?
- Sharan Bansal:** Across segments, currently, we are at roughly 15% is polymer, and about 80% is engineering with infra being about 5%. We expect polymer to be a greater share of the revenue growing up to 25% in the next two to three years, and engineering may be making about 70 to 75%. We don't have any particular growth guidance for the infra business that will because the company has a policy of selectively bidding for key projects as we go along. So, if you look at engineering and infra together, you should be looking at 75% there and 25% for the polymer business. This should be the revenue mix two to three years from now.
- Sanket Goradia:** And from a return ratio, do we have specifics on, you know, what would be, say, the ROCEs for Polymer business and for the Engineering business?
- Sharan Bansal:** I will not be able to give guidance on the ROCE, but on the operating EBITDA side, our Engineering has consistently been in the margin range of 12 to 13%. So, we continue with that guidance because even in the last couple of quarters, we have started delivering numbers, operating EBITDA in the Engineering business of 12 to 13% plus. In terms of polymer, we understand that right now our EBITDA is low because we still have high fixed costs and marketing expenses, which are getting absorbed over a lower revenue. However, the industry average is about 14% plus. We do expect to hit double digits very soon in the polymer business.
- Sanket Goradia:** Understood. So, just a few questions on the polymer business. Here do we, you know, kind of rather can you elaborate more on the split that we are having between UPVC and CPVC? Segmentally, how we are kind of the focus area is going to be on CPVC side? And so, I mean, how are we kind of looking at penetrating this market?
- Sharan Bansal:** Focus continues to be on the plumbing side of the business. So, almost 70% of our current revenue is coming from the plumbing side, which is much more margin generated with the fittings element fitted into it. The agri share will be about 30%.
- Sanket Goradia:** And CPVC will be how much percent of the total that you are selling through?
- Sharan Bansal:** CPVC would be something around 15 to 20% of our current revenue mix.
- Moderator:** Thank you. We have the next question from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking. Please go ahead.
- Bhavya Gandhi:** Thank you for taking my question. I just wanted to know how is the transmission monopolies business doing right now. And if you could share what is the current order book?
- Sharan Bansal:** You are asking about transmission monopolies?

- Bhavya Gandhi:** Yes.
- Sharan Bansal:** Sorry. Could you repeat your question please?
- Bhavya Gandhi:** Yes. How is the transmission business doing right now? And can you share the current order book?
- Sharan Bansal:** Sure. So, the transmission business is doing very well internationally and domestically. Domestically, large ordering is slow. However, the total order book of the company currently stand at approximately 2,100 crores. Out of that, exports make up approximately 45%.
- Bhavya Gandhi:** And is it possible to share what is the current utilization in both these segments?
- Sharan Bansal:** Both the segments meaning engineering and polymer?
- Bhavya Gandhi:** Yes. Polymer and transmission.
- Sharan Bansal:** You are asking about capacity utilization?
- Bhavya Gandhi:** Yes.
- Sharan Bansal:** Utilization is approximately 50, 55% in engineering presently, and in polymer it's about between 35 to 40%.
- Moderator:** Thank you. We have the next question from the line of Subramanyam from Alpha Capital. Please go ahead.
- Subramanyam:** Thank you so much for taking my question. Sir, I want to understand about PVC and CPVC realizations. What is the difference between PVC and CPVC? And what is the market size right now? And what kind of growth we may expect in going forward?
- Sharan Bansal:** The market size for total polymer is about 35,000 crore approx. CPVC, and PVC basically CPVC is largely used for hot water application plumbing side, while PVC has a general usage.
- Subramanyam:** Sir, like which are the states we are experiencing more demand for PVC and CPVC?
- Sharan Bansal:** So, we are right now focusing, getting a major demand from the Eastern India state in Jharkhand, Assam, Angola and Bihar.
- Subramanyam:** Sir, what kind of opportunities we have on Philippines credit, Malaysian credit, and Australian credit like in outside India?
- Sharan Bansal:** You are asking about export opportunities?

- Subramanyam:** Yes, sir, like in terms of power utilities and international EPC player side.
- Sharan Bansal:** So, company is getting a lot of export business in the Engineering business, but in polymer business, there are not really any export opportunities. But Engineering side we are getting a lot of export business.
- Subramanyam:** Sir, on the monopole side, like what is the difference between the normal pole and the monopole? What kind of opportunities we have? What is the transmission capacity?
- Sharan Bansal:** In monopoles, the skipper is one of the pioneers in this product. Basically, purpose of the monopole is to reduce the footprint of the transmission tower on the ground. Now with the increased right away problems with more and more lines coming under urban and semi-urban areas, there is a need, plus there is a lot of diversion works going on because of the highway constructions. So, which is why monopole is a fast and efficient system for replacing those lines as well as planning new lines with a lower footprint on the ground compared to large transmission towers. So, we are getting business for monopoles in a number of areas in India as well as export including the North American, U.S. and Canada market.
- Subramanyam:** So, what is the transmission carrying capacity for monopole?
- Sharan Bansal:** The monopoles can be designed for any voltage line map. So, the voltages can be anything starting from 33 KV up to 765 KV. So, Skipper is the first company to design and test 765 KV poles in the world. So, it can be really up to the line requirement of the customer. It can be designed for any voltage level.
- Subramanyam:** Sir, what kind of margin difference between monopoles and the normal transmission lines?
- Sharan Bansal:** Monopoles certainly come with much better margin. Of course, the volumes are lower, but if normal engineering product margins are in the 12 to 13% range, monopoles would be about in the 16 to 18% range.
- Subramanyam:** Sir, what kind of opportunities we have for 4G and 5G in Telecom side for monopoles?
- Sharan Bansal:** For monopoles, there will be opportunities on the Telecom side. However, overall Telecom is a mix of telecom towers as well as monopoles. So, there are good opportunities. As I had mentioned earlier in the comment that we are looking at about 300,000 new towers and poles for the 4G rollout, and also a significant amount of new towers for the BSNL expansion, which the Government of India has planned.
- Subramanyam:** Sir, what kind of logistics advantage we have on that plants? Because we have three plants in Eastern India only. So, what kind of logistics advantage we have?
- Sharan Bansal:** We have logistics advantages on the raw material side, because Eastern India is the main hub for most of the steel production. In India, most of our products are made of steel, and also we

have logistic advantage because of being close to port. So, our exports, we get the advantage of lower inland transportation costs.

Subramanyam: Sir, like in FOREX, like what kind of hedging activities we are doing right now? Like we are doing like we have OTC markets or derivatives like how the mechanism it works?

Sharan Bansal: In general, the company is taking forward contract for our export orders in order to book and hedge ourselves against currency risk. So, that is what the standard policy of the company is.

Subramanyam: Sir, on the EPC project side, like, what is the average execution period for the EPC projects? And what kind of order book we are having right now? And is there any opportunities for renewable side?

Sharan Bansal: Yes. So, number of the overall T&D projects are being catered for renewable projects. Renewable generation projects. On the EPC side, there are opportunities. However, currently, the company does not have much of an order book in this business. Our order book is roughly about 200 crores only for the EPC business.

Moderator: Thank you. We have the next question from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Just one question on the CAPEX side. If I can see for the first six months we spent close to around 56 crores on the CAPEX. And you mentioned that your utilization is like 50, 55 in engineering and in the 35, 40 in polymer. So, is this from a special R&D or the modernization if you could just tell us what is the type of area which we have spent the CAPEX? Secondly, what is the full-year guidance you would leave on the CAPEX?

Sharan Bansal: So, Sachin, basically, our normal CAPEX is in the range of 40 to 50 crores a year, and this is predominantly made up of capacity optimization where we need to expand our range in certain products to cater to the changing market requirements, especially the export markets. A significant part of this is also maintenance and replacement CAPEX. So, I would say that this is a standard guidance which we have been giving for number of years, and this is the standard CAPEX that you can expect from the company. It's not really for capacity enhancement. It's more of a optimization to cater to the ever-changing market demand requirements.

Sachin Kasera: Secondly, could you give us some sense on the margins in domestic versus exports? And in export, especially, you know, because we are seeing some reported FOREX which is say I think of notional nature. So, how should we read including the FOREX losses, the margins on exports versus the domestic market is my first query. And secondly, on the working capital cycle, is it the same in both of them or is the working capital cycle different in domestic versus exports?

Sharan Bansal: In terms of margins, you can expect exports to be close to about 150 to 200 basis points higher than domestic margins. Of course, these are inclusive of the FOREX gain or losses that we have. the FOREX losses that you see in the current quarter are largely notional because of the sharp

depreciation in the rupee that has taken place, because as I mentioned, the company is in the practice of hedging this entire export order book, which is to be executed over five to six quarters. But the execution of one quarter is not enough to absorb the entire M2M loss of the entire order book, but the realization of the orders which we have taken a hedge, those realizations will come at a higher value, so which is why that loss today will get offset by the higher realization in the subsequent quarters. So, that's from the realization front. And your second question was, sorry?

Sachin Kasera: On the working capital cycle.

Sharan Bansal: The working capital in both exports and domestic tends to be similar because the inventory cycle is higher for exports because there is longer duration time required for inspection and logistics requirements on the export side, but the realizations are faster. So, normally, the inventory cycle is higher, but the debtors is lower. So, overall working capital is similar both in exports and domestic.

Sachin Kasera: And just one more clarification and follow up on the FOREX thing that you mentioned. So, assuming the FOREX closing on 31st December is the same as 30th of September, we will not have any FOREX loss. Is that understanding correct?

Sharan Bansal: Once again, could you repeat the question?

Sachin Kasera: I am saying if the closing currency as on 31st of December same as 30th of September, then we will not have any FOREX loss, and because the currency would have remained high, we will see higher margins in the reported margin of this engineering business.

Sharan Bansal: Yes. Your understanding is correct.

Sachin Kasera: Are we doing something in terms of being able to, you know, get more efficiency and maybe better pricing in terms of procurement costs, especially on the steel side?

Sharan Bansal: More efficiencies in?

Sachin Kasera: Terms of procurement and purchasing of the raw model, especially the steel that we use for the Engineering business?

Sharan Bansal: Yes. We have, you know, of course, we tried. We are doing various strategies on the purchasing including as I mentioned taking long-term hedges wherever possible on the BSC as well as the LME. Also, we have been entering into wherever possible some long-term contracts with our raw material suppliers, and wherever the hedging and the long-term contracts is not possible, we are entering into, we are procuring the materials, you know, for covering our firm price contract. So, as a combination of these three strategies, we are better placed to protect ourselves against future price increases.

Sachin Kasera: So, my question was more in terms of, you know, at any point of time, you see the steel price at Rs. 100, and today say, for example, it goes to 99, are we trying to work on some efficiencies where instead of Rs. 99, you know, when the market price is 100, we end up paying Rs. 98, and as we get scaled because normally what we are seeing in the steel industry is that as your volumes keep going up, you start to get better discounts from the suppliers. So, is it that -

Sharan Bansal: You are absolutely correct. So, we are able to get efficiencies and reduce price by, obviously, the market right now is much more stable. Steel prices have come down significantly from their historical highs. We are also getting a lot of import options now because the imported steel into India is cheaper than international prices of steel are cheaper than domestic prices. So, we are getting a number of import options also for steel which are helping to drive our price down. And because we are a large manufacturer, we are able to use our economies of scale to import significant volumes, which may not be possible for smaller manufacturers.

Moderator: Thank you. We have the next question from the line of Sanket Goradia from RS Investment. Please go ahead.

Sanket Goradia: Thank you for the opportunity again. Sir, could you give us a split between what the turnover, the working capital turnover and fixed assets turnover ratios for Engineering and Polymer, in particular?

Sharan Bansal: Presently, the net working capital for the company is 130 days.

Sanket Goradia: 130 days. Yes, sir, but at a segmental level, would there be a split if we could get a better understanding on the just to understand the working capital and the fixed asset turnover for the two segments?

Sharan Bansal: It isn't available with me right now. Aditya can share that with you later on.

Sanket Goradia: Sir, just another thing then on Engineering product, I mean, just to get a better handle on understanding the business model, could you kind of just give a brief on, you know, how we are say sort of bidding for these projects? So, how the order placement happens to, you know, how we kind of end up eventually booking the revenue? And how are we anticipating, you know, the order book say for the next two to three years? Or rather how do we sort of calculate demand internally?

Sharan Bansal: So, your first question is about how do we book the revenue in engineering.

Sanket Goradia: Yes, not from an accounting side. What I am just trying to get at is that if you could kind of just give, you know, color on in the engineering products, what's the business model like? I mean, is there an order book that we sit on? Do we keep building for projects and we win? And is that the way to look at business?

- Sharan Bansal:** Yes. So, we are predominantly a manufacturing company. So, although we cater to projects, but our business comes from normally an EPC company or a utility purchasing the structure, the towers and the poles. So, we get a contract. From the contract then we get manufacturing clearances, and based on the manufacturing clearances, we create inventory and do sales. And that's when we book our revenue. So, our revenue booking will depend on the project execution, although we are not responsible for the project execution, but it will move in tandem with the project execution, how the supply clearances, and the manufacturing, and the supplies will take place, that will depend on the project progress made by the EPC contractor.
- Sanket Goradia:** So, when we have to win these contracts with say these utility companies, I mean, we will be competing say with the peer set, and then we win the contract, and then we get the revenue, and then so the rest follows, right? Is that correct understanding?
- Sharan Bansal:** Yes. Absolutely. Of course, the T&D projects normally have a long station period. So, typically, what we find is that from the time the actual RFQ, the tender is out, it can take anywhere between six months to one year for the award to be finalized, and then after the award, normally, there is the six to eight months period of engineering activities that go on, and then the actual revenue manufacturing and the sales start happening.
- Sanket Goradia:** So, sir, all points said something like an order book that we will be sitting on.
- Sharan Bansal:** Yes, of course. So, the order book is the confirmed contract that we have received from our customers. So, those are confirmed orders that the company has secured already, and the sales come from that. But then there is a bidding pipeline. So, like, for example, the current order book of the company is about 2,100 crore, but the bidding pipeline is plus of 10,000 crores. So, every quarter we secure new orders of approximately 500 crores.
- Sanket Goradia:** Understood. And so, again, would this be correct understanding that we wouldn't really be having any ready inventory? Inventory is only as and when we win the contract, that's when we do the rest inventory of the finished goods are only for contracts that we have already won.
- Sharan Bansal:** Yes, you are absolutely correct. Our production is 100% made to order. We don't have any made to stock inventory at least in the Engineering business. In the polymer side, we do have some made to stock items, because there are a number of SKUs, and it's not a customized product. But on the engineering side, 100% is made to order only. Even after we win a contract, we cannot start manufacturing unless and until the entire engineering, the design, load testing etc., is over, and we get a clearance from the customer for starting manufacturing. Only then we create inventory against that order.
- Sanket Goradia:** Understand, sir. And just again on the engineering side, you know, in terms of customer stickiness, I mean, how do we kind of understand that or rather if you can kind of just give a color on, you know, how the repeat customer concept happens in our line of business?

- Sharan Bansal:** It's a good question, and I think, Skipper, which is, you know, cost competitiveness, it's strength in engineering as well as service has developed strong relations with over 100 global EPC contractors of large sizes, large and small mix. And of course, these customers recognize the importance of a prompt, the prompt and reliable manufacturing company because, you know, their project sizes will be much larger in comparison to the value of supplies that they take from us, and typically, towers and poles are the most important supplies to be going into Power T&D project or for that matter even a telecom rollout project, because of the nature of being a customized product. So, definitely, customers recognize the importance of a large, consistent and reliable manufacturer like Skipper, and for that, obviously, we get a lot of repeat business from various customers of ours.
- Sanket Goradia:** That is very helpful. Sir, just one last question from me. Again, the Engineering product wise, what would be the concentration of the top 10 customers?
- Sharan Bansal:** For us?
- Sanket Goradia:** Yes.
- Sharan Bansal:** I would say that even the largest customer would not make up more than 8% of our order book. So, maybe the top 10 customers would be making up approximately 30% of our order book maybe.
- Sanket Goradia:** Sorry. 20 did you say?
- Sharan Bansal:** 30 to 35% of our order book will be made up of the top 10 customers.
- Sanket Goradia:** Top 10, okay, and then otherwise it's a diversified book outside of that.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would like to hand the floor back to Mr. Miraj Shah for closing comments. Please go ahead, sir.
- Miraj Shah:** Yes. I would like to thank everyone for participating on the call. I hope your questions have been answered, and I would also like to thank the management for having this conversation with the participants. Just I would like to hand over the call to management for closing comments.
- Sharan Bansal:** Thank you, everyone, and we do look forward to engaging with you all at the Quarter 3 Conference Call. Thank you for all your questions and look forward to seeing you again.
- Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Arihant Capital Markets Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.