



“Skipper Q2 FY18 Earnings Conference Call”

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MODERATOR: **MR. JOHN PERINCHERY – EMKAY GLOBAL**

Moderator: Ladies and gentlemen, good day and welcome to the Skipper Q2 FY18 Earnings Conference Call hosted by Emkay Global Financial Services. 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 the operator by pressing * then 0 on the touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. John Perinchery from Emkay Global. Thank you and over to you, sir.

John Perinchery: Good afternoon, everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Devesh Bansal, Director; Mr. Sanjay Agrawal, CFO; Mr. Aditya Dujari, Head of Investor Relation; Mr. Sharan Bansal, Director, will also be joining us in a couple of minutes.

I would now hand over the call to Devesh Bansal for his opening remarks. Over to you, sir.

Devesh Bansal: Thank you, John. Good afternoon to all of you and thank you for your continued interest in Skipper. My apologies for holding you back for a day. Please take note, any forward-looking statement made during this call must be reviewed in conjunction with the risks that the industry and the Company face. I am pleased to inform you that we have delivered yet another good quarter, with robust growth in revenue on account of strong engineering products volume execution and rising commodity prices, while maintaining healthy margins of 13% plus. As you are all aware that we have successfully completed our migration to IndAS end of June quarter and we are required to report IndAS compliant profit and loss numbers for both the current and the corresponding quarter last year. Thus the previous year numbers were reinstated and adjusted in accordance to IndAS provision. Though most of the adjustments made no material impact, but the requirement of Forex derivatives gain to be reported on mark-to-market basis has resulted in increase of profitability numbers of the previous year. The reported Q2 and H1 FY17 numbers now include Rs. 16.6 crores and Rs. 11.93 crores of notional Forex gain. Thus, all comparative growth numbers are required to be calculated, excluding this notional gain impact, for better understanding and analysis on like-to-like basis. A reconciliation statement explaining the adjustment made for reinstatement of numbers between IGAAP and IndAS is provided in slide 53 of the investor presentation. I am sure many of you would have specific query to get better understanding. In this call, we will try our best to address these queries. And if need be, you can reach out to our F&A team through Aditya afterwards.

Now, coming back to the business. Some of the key financial highlights in comparison to the previous year corresponding quarter were as follows. Net sales have grown by 32%. The net sales of the Company increased to Rs. 515.62 crores from Rs. 390.81 crores. The growth was primarily led by strong volume getting executed in engineering product business on both the domestic and international fronts, supported by strong commodity prices. With this strong growth performance in H1, we are happy to revise our initial guidance of 15% growth for the year to now approximately 20% topline growth for the year. Our operating performances, excluding the impact of notional Forex gain in FY17 were as follows. Operating EBITDA rose by 20%. The EBITDA increased to Rs. 68.28 crores from Rs. 56.95 crores, with margins remaining consistent at 13% plus. Operating PBT increased to Rs. 36.53 crores from Rs. 33.91 crores registering a growth of 8%. Operating PAT increased to Rs. 23.24 crores from Rs. 22.37. Our average cost of debt has come down to a level of 8% per annum on account of various cost benefit initiatives and overall reduction in the interest cost by the banks.

On the order front, we are happy to inform you that the Company had yet another quarter of good inflows. We secured new orders worth in excess of Rs. 430 crores for engineering products from Power Grid Corporation of India, Uttar Pradesh Power Transmission Corporation Limited, Sterlite Power, Reliance Jio, and for various supplies across Asia and Africa. The Company's engineering products order book to sales stands at 1.9x and is well diversified between domestic and international orders. The sector continues to witness uptick in both ordering and execution and the Company expects growth to remain strong and gain further pace with increased participation opportunities from North East and East India states like Jharkhand, Bihar, and Orissa. The ordering in TBCB has been lull in the first half. We expect the activities to pick up in the second half. Also, PGCIL getting active to build intrastate transmission projects by tying up with SEBs will give a big boost to the industry. They have already tied up with Bihar, UP, and even there are talks of Orissa. Also, we expect SEB action to remain healthy with states like Karnataka, Tamil Nadu, West Bengal, Andhra Pradesh and Telangana increasing on their T&D spending to reduce AT&C losses and building infrastructure on higher-voltage lines.

Further, the Company as an ongoing endeavor to enrich its product mix has forayed into Railway electrification. The Company is gearing up to sharpen its focus on Railway electrification and intends to increasingly start bidding for such projects in strategic alliance with local private players initially. We are gearing up for adding more manpower and building capacities to handle all future Railway-related projects. The Company has already started bidding for such projects and is favorably placed to bag its first package valuing Rs. 160 million. We are also very pleased to inform you about our ongoing JV

talks with MetzerPlas, which is one of the largest and most specialized manufacturers of drip irrigation solution from Israel, to make drip Irrigation systems in India. MetzerPlas is a longstanding global player dedicated to developing and manufacturing high-quality products for customers worldwide. MetzerPlas brings advance water management technology to the world of agriculture and is an innovative leader in design and production of irrigation systems worldwide. The Company's drip integration products help the global food challenge by assisting growers to continue delivering produce in spite of increasing constraints, such as limited water supply, high land values, harsh topography, and rising global competition and commoditization. With its wide selection of drip emitters, cylindrical, flat, pressure compensated, anti-siphon, and non-drain Metzer irrigation solutions offer high performance and reliability and are suitable for every crop and budget. Metzer also provides its agronomic implementation expertise to help achieve successful long-term operation and increase the gross profit.

The drip business holds immense potential in India and is one of the focus sectors of the government. The current domestic industry size is estimated at close to 5,000 crores. And under the Honorable Prime Minister's flagship scheme, Pradhan Mantri Krishi Sinchai Yojana, which has been launched with the aim of extending irrigation cover, Har Khet Ko Pani, and improving water use efficiency, Per Drop More Crop, in a focused manner and concentrating on source creation, distribution, management, field application, and extension activities in the area of water management, we expect this sector to grow at a robust pace and for the JV to become a major player in the domestic market.

We feel proud that such a large global company has chosen us as partner for their drip irrigation venture into India and for showcasing the confidence on Skipper Polymer business ability to create scale through it. We request all participants to take note that currently, we are still engaged in advanced stage of talks about our engagement and are bound with some confidentiality clauses to not speak about the JV strategy and way forward. And thus request you not to ask any questions about our engagement terms and its details. At appropriate time, we will divulge and share all the details with shareholders and investors. But what we can assure of is that the JV brings a lot of synergic value and potential to our polymer business. And we see great future for this business in the years to come. The Q2 performance of the Polymer Pipe remains challenging due to a lot of uncertainties, mainly due to the GST implementation. In the first two months of the quarter, there was a sense of circumspect and confusion among the channel partners, leading to deferment of placing newer orders and holding onto their inventory. Considering such challenging circumstances, our performance remains muted. But the market now has rebounded, with restocking activity now in place and concerns waning off. We expect the market to get back to normalcy and show a good rebound in the

coming quarter and are very optimistic about the overall benefits GST brings to its business.

To summarize, we are confident of profitable revenue growth of approximately 20%, with a consistent margin of 13% to 14% in the current year. A strong order book will give us a good visibility and confidence of achieving this growth. Thank you and we are happy to take your questions now.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take our first question from the line of Tarang Bhanushali from IIFL Wealth. Please, go ahead.

Tarang Bhanushali: Well, good performance on the engineering product side on the revenue growth, but our margins have been under pressure. So, any particular reason on that?

Sharan Bansal: Yes. Hi Tarang. The margins are not under any pressure at all. In fact, we have always maintained our EBITDA margin guidance of (+13%). And even in this quarter, the operating EBITDA margin is at 13.5% for the engineering product business. It's just that if you compare on a particular quarter, maybe quarter two of last year, so increased EBITDA margins maybe because of particular projects of good value being executed in that quarter. But that may be possible for in certain quarters. But overall, we absolutely still maintain our guidance of EBITDA margin of plus of 13%. And that is what we have delivered as well.

Tarang Bhanushali: But as mentioned earlier that the exports growth was also good and since we have higher margins on that business. But that is not visible on our overall margin picture on a Y-o-Y basis.

Sharan Bansal: The export margins have the potential to be better. But it's not that exports as a percentage of our overall sales have gone up. They remain the same as what we have been delivering. So it's not that, particular this quarter that we have higher export sales.

Tarang Bhanushali: And what would be the order book position at the end of quarter?

Sharan Bansal: It stands at 2,580 crores.

Tarang Bhanushali: And are we L1 in any of the projects?

Sharan Bansal: We are L1 in a small project of Railway electrification, which is valued at about 16 crores. This is basically the Company's first foray into Railway electrification. So this is a small value project that we are L1 in right now.

Tarang Bhanushali: Nothing on the T&D side?

Sharan Bansal: No. T&D, everything is already secured.

Moderator: Thank you. The next question is from the line of the HR Gala from Finvest Advisors. Please, go ahead.

HR Gala: Sir, just wanted to understand from the accounting perspective, the Q2 FY17 numbers which are reported in the result is already restated as per the Indian AS and so are the Q2 FY18 result. So I just wanted to know that if profit before tax what is reported 50.50 crores is inclusive of 16 crore worth of Forex gain, what is the position in Q2 FY18 36.53 crore?

Aditya Dujari: See, the FY18 Q2 and Half One result, H1 results, are not restated as per IndAS. These have been prepared as per IndAS itself and there is no issue of any reinstatement. Since the previous year figures were prepared under IGAAP, in order to publish under the IndAS concept they need to be reinstated. Only the previous year's figure got reinstated...

HR Gala: Yeah. Absolutely. So what my query was that both FY17 and FY18 numbers of Q2 and H1 are according to same set of accounting regulation. If that be the case, then we should be really making the comparison of PBT drop of 28% to 36.5 crores vis-à-vis 50.5 crores.

Sanjay Agrawal: As Mr. Devesh Bansal in his opening remarks has already clarified that we have a revenue growth of 32%, whereas the EBITDA number growth of 20% received as per the previous year, actually IGAAP profitability.

HR Gala: Yeah. So that is IGAAP. Whereas your Q2 FY18 numbers are the Indian AS.

Sanjay Agrawal: If we just exclude the notional M2M gain, then the situation is coming on.

Devesh Bansal: So just to add on to what Sanjayji said, so till last year, we were only accounting for Forex gain which were crystallized. But as per IndAS, even notional gain, which was present during last year Q2 has to be accounted for.

HR Gala: Okay.

Sharan Bansal: So that is why you will see that the difference between the IGAAP reporting of last year and IndAS reporting of last year quarter two, there is a large gap of 16 crores in the EBITDA number, which is basically is a notional gain, which normally was not accounted for.

HR Gala: I understand. I understand that, sir. Now, Q2 FY18 and H1 FY18, how much is the Forex gain or loss element?

Sanjay Agrawal: So while it's not reported officially. The figure is very, very small. So because it's a notional gain, it was never accounted for earlier, only when it was crystallized. It's only because of the accounting standards that this increase of 16 crores is coming in.

HR Gala: Okay. Yeah. I will seek more clarification from Mr. Agrawal later on.

Sharan Bansal: Surely.

HR Gala: Sir, one thing. You said we have achieved about 35% revenue growth in H1 FY18. What could be the reasons why we are giving 20% revenue growth guidance for the full year FY18, sir?

Sharan Bansal: We have always earlier maintained a 15% revenue growth guidance. And again, a part of the reason for the top line growth is also commodity price increase. As you know, most of our contracts are with price variation clauses, so because of the PV clauses, the finished product sales price is also increased that also contributes to the revenue growth, which is why looking at the robust execution of H1, we have revised our guidance from earlier 15% to 20% and we would rather give a conservative guidance than give a very aggressive guidance and then not achieving it.

HR Gala: Okay. And, sir, last question from my side. What will be the capital expenditure in current year? Earlier, you were guided for 85 crores.

Sanjay Agrawal: Our guidance for 85 crores is still there. Part of that is already incurred. Around 45 crores, we have already incurred during the first half. And balance is under planning.

Moderator: Thank you. We will take the next question from the line of Sujit Jain from HDFC Securities. Please, go ahead.

Sujit Jain: Good afternoon, Sharan ji, Devesh ji, and the team. Sir, if I look at the gross margins, there's a dip of about 250 bps. So despite we having variation clauses, the gross margins have declined. So, does this mean that the realization was lower during this quarter Y-o-Y?

Sharan Bansal: So I answered that in the first question itself. We have always maintained a EBITDA margin guidance of 13% plus. And in the engineering products, in this quarter also, we have achieved 13.5%. So particular quarters cannot really be looked at for the Company's EBITDA performance, because the quarter performance will depend on what contracts

are getting executed in which quarter. So last year quarter two, there may have been a situation where certain high-value contracts were getting executed. And this quarter, there may not be that situation. So really, you will have to look at the EBITDA margin more on an annual basis. And we maintained our guidance of 13% plus EBITDA margin for our engineering product business.

Sujit Jain: Okay. And the rise in working capital because of which the debt has risen by more than 90 crores. What could you attribute that to?

Sharan Bansal: Part of the working capital increase is, of course, because of increase of business volume. But you are right that the working capital has increased a little extraordinarily this in H1 because of GST transitional issues. So we are seeing a lot of our contracts being migrated from pre-GST to post-GST. Because of that, there is some payment delay which we are facing from the various utilities, including Power Grid. So that is contributing to overall the increased working capital cycle in H1.

Sujit Jain: No. So you mean, increase in the receivable is the reason. Is it?

Sharan Bansal: Yes, that's right.

Sujit Jain: But if I see, the inventory has shot up by more than 100 crores, if I compare it with March numbers, from about 370 crores to about now 482 crores.

Sharan Bansal: Yeah. That's because the revenue delivery is also not uniform across the four quarters. So it's very difficult to compare March numbers to September numbers really.

Sujit Jain: So net-net, we will maintain what we used to say is that 85-90 days is a normal working cycle. Is it the case? Because now, it is at around 114 days.

Sharan Bansal: By the end of the year, we are confident that once the GST issues are fully resolved and the realizations pick up again, we are sure that we'll come back to 90 days by the end of the year.

Sujit Jain: No, sir. This inventory issue, is it because of the GST that there has been delays in pickup of the inventory, which has been contracted by the clients?

Sanjay Agrawal: No, as I mentioned that inventory issue cannot be looked upon quarter-on-quarter. Because the March quarter revenue delivery will not be the same as September quarter revenue delivery. We do normally even in previous years, we do see a situation where inventory levels are higher in quarter one and quarter two. And quarter three, quarter

four, the delivery performance increases. So their inventory figure goes down. So that is a normal trend, which we see anyway in year-to-year.

Sujit Jain: And what is the execution period for the current order book?

Sharan Bansal: The execution period is approximately between one and a half to two years.

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

Ashutosh Adsare: One question. Sir, how has the monopoles segment performed during the quarter?

Devesh Bansal: So, as you're aware, monopoles is still a very new technology for India. And most of the utilities are still getting educated about the benefits of monopoles. But we have seen a remarkable increase in the number of inquiries and the number of tenders which are now coming out. These are not very large. But we are very happy that most of the state utilities, as well as Power Grid have now started taking on monopoles inquiries very comfortably. So while we are currently in the process of executing two projects, one international and one domestic, we expect this volume to increase significantly, going forward.

Ashutosh Adsare: Okay. Sir, on the polymer business, despite pickup, like the polymer business isn't still out of woods of GST, because you had guided for pickup in this segment in last concall.

Devesh Bansal: Yeah. We were quite confident pre-implementation of GST that the GST implementation would be smooth. But what we found was that even in quarter two after implementation of GST, most of the channel partners were still slightly wary of stocking up too much, both because the new GST regime was slightly uncomfortable for them and plus, quarter two is anyway slightly slower during the year. So we felt the effects of that. And unfortunately, we could not reach the growth numbers that we had targeted. But since quarter three and especially since November, we are definitely seeing the demand rebound. And I expect this GST impact to be completely negated now. So from November onwards, we should be seeing regular business.

Ashutosh Adsare: Okay. So do you still maintain the target of 1 lakh tonne capacity by FY19?

Devesh Bansal: No. FY19 is not possible now. But yeah, I mean, it might be delayed by another 18 months or so. But the milestone is definitely there in the management's targets.

Ashutosh Adsare: Okay. Sir, last question on the debt side. So your debt has increased from 416 million to 534 million in September. And any targets of reducing the debt back to some 400 level, sir?

Sanjay Agrawal: See, this increase in the debt number is basically on the working capital loan. So, definitely we have every target unlike last year also to maintain the debt number within what it was at the end of the year.

Moderator: Thank you. The next question is from the line of Pawan Parekh from BOB Capital Markets. Please go ahead.

Pawan Parekh: Sir, on the Polymer side, you said the restocking has begun and for the first half of this financial year, we have hardly done about 2% revenue growth. So, what is the growth that we are looking for the Polymer business in the second half now?

Devesh Bansal: Well, as I mentioned, since November there has been definite pickup in demand. And we are seeing robust demand in the market especially from our channel partners now, who were slightly in the destocking mode in the first couple of quarters. But overall, I would expect that the growth target for this business for this year would now be somewhere close to 25% to 30%, primarily because we had very muted quarter one and quarter two.

Pawan Parekh: On a full-year basis?

Devesh Bansal: On a full-year basis, yes.

Pawan Parekh: So despite doing just 2% revenue in first half, we still expect like about 25% for the full year, which is still quite commendable, I guess.

Devesh Bansal: Well, we have a low base effect. So effectively from that perspective, our target initially was 50% plus. But there would be a downward revision in this to 25% to 30% now.

Pawan Parekh: Okay. Sir, can you provide a breakup of your order book between domestic and international?

Devesh Bansal: Domestic is 80% and export is 20%.

Pawan Parekh: Okay. So, sir, can you on a qualitative basis speak about your plans on the international markets. Sir, in the last quarter, you had said that you have added Kenya and Bangladesh as two geographies. Any further development on that side?

Sharan Bansal: Bangladesh is not a recent development for us. Bangladesh, we have been doing for a number of years. But yes, definitely the Company is looking to add more and more geographies in our portfolio every year. The recent one, which we added in Q4 last year was Philippines and Botswana. And as the years go by, definitely, we are making an effort to get more and more international approval for our plant and enter into more and more new geographies.

Pawan Parekh: Okay. And finally sir, if you could share the tonnage details that we have done either for this quarter or first half, both in engineering products and Polymers?

Sharan Bansal: The quantity details are shared on a year basis only, not on a quarter basis. So definitely, we would be happy to share that with you at the end of the year.

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

Rakesh Roy: Sir, my first question is regarding your number in this quarter, the finance cost, depreciation of tax rate is high on year-on-year basis. Any specific reason?

Sanjay Agrawal: See the finance cost, you are looking on absolute number basis. That looks to be higher. But as a percentage to sales, actually this has gone down. This has gone down from actually 4.25% to 3.88%. But obviously, the depreciation number has gone up because of certain CAPEX we had during the past couple of years and the change in the accounting concept as far as the IndAS. Because certain assets need to be depreciated depending upon their useful life only. Accordingly, the depreciation number has been gone up.

Rakesh Roy: And regarding the tax rate, generally your complete tax rate is near to 31%, 32%. But this quarter, the tax rate is more than 36%.

Sanjay Agrawal: Actually the tax rate is 34.6% something, which is the full tax rate. And this 36% comes from certain expenditures like certain CSR expenditures, which are in the nature of permanent disallowance. So like that only, there are certain expenditures. Because of that, this tax rate seems to be 36%.

Rakesh Roy: Right, sir. Sir, my next question is, can you give me the breakup for revenue between domestic and the export market revenue breakup for this quarter?

Sanjay Agrawal: For this quarter, the revenue breakup that can be said. But it is not exactly right now available with us. That you can take up with us separately.

Rakesh Roy: Right, sir. Can you give me this one number, utilization rate in transmission business and PVC only?

Sanjay Agrawal: In our engineering business, the capacity utilization is almost around 85% to 90%. And in Polymer it is similar to around what we have around less than 60%.

Rakesh Roy: Near to 50%, between 50% and 60%, sir.

Sanjay Agrawal: 50% to 60%.

Rakesh Roy: My third question is that, can you put some highlight on your Railway order? In Railway order, you are going to supply only tower or you can do all the work, sir?

Sharan Bansal: No. So we are quoting for turnkey services under our infra project division. This will be for turnkey Railway electrification in the 25 KV bracket. This will be a turnkey job.

Rakesh Roy: Okay, sir. Sir, how much margin you are looking from Railway, on the basis of operating margin?

Sharan Bansal: See, broadly, the idea will be that, as you know, the Company take on infra projects on a case-to-case basis only. We are bullish about Railway electrification, because there is definitely a strong push by the government to convert all diesel locomotives to electric locomotives. So definitely, we see a lot of potential in Railway electrification over the next 4 to 5 years. That is why we have entered into it. And the idea will be that the margins in this business should be similar or better than our existing company margin of (+13%).

Rakesh Roy: You can take only (+13) margin?

Sharan Bansal: No, I mean, it's not like we can only take that. I am saying that that the bare minimum expectation of the Company would be 13%. Definitely, we look at higher margins in this business. But then it's a bit early for us to say, because we have not even started executing our first contract till now.

Rakesh Roy: Sure, sir. Sir, on Railway side, this question is different one. Railway, you have right now 16 crores for order book, sir?

Sharan Bansal: That's right. That we are favorably placed. It is not like a secured order.

Rakesh Roy: Right, sir. Of 16 crores, how much order you are looking in FY18 and FY19. Can you give me a brief idea, sir?

Sharan Bansal: That is difficult to say. Look, as I have mentioned before, we don't set a top line target for our infra project division. We bid for project very selectively. And that will be the same strategy adopted here in Railway electrification as well.

Rakesh Roy: Right, sir. Sir, any CAPEX for FY19? Any idea for CAPEX?

Aditya Dujari: Normally, on a year-on-year basis, we have a CAPEX program for both the engineering and this plastic products of around 50 crores to 60 crores. So that's the average CAPEX program you can consider. And any further CAPEX requirement if comes on, that can be updated later on.

Rakesh Roy: Right, sir. Sir, my next question is regarding, recently Jharkhand government passed this month 500,000 transmission lines. How much Skipper is looking from this region, Jharkhand, Bihar, and Orissa, as you mentioned in the call?

Sharan Bansal: I think both Jharkhand and Bihar are definitely very active in terms of intrastate transmission investment. Jharkhand has already announced that they are going to build project for about 10,000 crores, out of which 5,000 crores have already been tendered out. So certainly, we are quite bullish on this region. And definitely, because of our locational advantage, we should be getting the line share of business in this region.

Rakesh Roy: Okay. Sir, any idea, you work on any idea how much out of 10,000, you can say a 5%, 10% maybe Skipper get?

Sharan Bansal: If I assume that, our addressable market size is approximately 25% for towers and add another 10% to 15% for EPC. So out of 40%, we should be able to at least gain 20% out of that. So the potential for Skipper would be about 2,000 crores out of the 10,000 crores.

Rakesh Roy: Sir, can we expect this order in FY18? Or this will go in FY19 also?

Sharan Bansal: I think it will be split between the two financial years.

Rakesh Roy: Okay. Sir, my next question is regarding any Forex gain or loss in this quarter, sir? I forgot to hear this one earlier, sir.

Sharan Bansal: No, it has been negligible.

Rakesh Roy: Negligible, sir. Sir, any guidance for any FY19 for a margin front. This will be near to 13%.

Sharan Bansal: I think the Company has been fairly consistent in terms of delivery of EBITDA margin. And definitely, you can expect that to take place in the future also from the Company.

Moderator: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Just wanted to know couple of more things. Our effective tax rate has increased to 36%. So for the full year, what kind of tax rate we should consider?

Sanjay Agrawal: See, I just replied to this question a couple of minutes back. Our effective tax rate is 34.6%, which is the maximum tax rate and because of certain unallowable expenditures like CSR expenditures, so this tax rate seems to be at around 36%. But the effective tax rate should be around 34 point, the maximum rate.

HR Gala: Okay. No, but as far as P&L is concerned, what we see will be 36%. The PAT will come after that only.

Sanjay Agrawal: Yes. Because 36% is seen because the tax needs to be calculated based on the expenditures, which are allowable or non-allowable.

HR Gala: Yeah. Absolutely.

Sanjay Agrawal: So because of that only, it seems to be 36%.

HR Gala: Okay. Sir, that was one thing. The second thing is, this Forex gain of 16 crores and 12 crores in this previous period was clubbed into which of the accounting head?

Sanjay Agrawal: This is clubbed with the other expenses. This is mentioned in the quarterly result at the Page #3 reconciliation is given. And it also mentioned over there.

HR Gala: Okay. It is in other expenditure?

Sanjay Agrawal: Yes.

HR Gala: Okay. And, sir, my last question is, when we are getting into this sprinkler business, basically it is a subsidy driven business. So how do you see we will be able to compete?

Sharan Bansal: So, we are focusing on the drip irrigation business, not the sprinkler business. But even drip is, you are correct; it's a subsidy-driven business to a large extent. The idea will be to play a part both in the subsidy market as well as the non-subsidy market. So again, the strategy for the same is being crystallized. And I am sure we'll be able to share more details with you in the coming months.

Moderator: Thank you. We will take the next question from the line of Sujit Jain from HDFC Securities. Please, go ahead.

Sujit Jain: Sir, if you could just share the order book breakup between PGCIL, SEBs, private sector. You did it for domestic and exports 80:20. But PGCIL, SEBs, private sector?

Aditya Dujari: So PGCIL is 50% of our order book as of now, SEB is 30%, and export is 20%.

Sanjay Agrawal: SEBs, that includes the certain private also. SEBs and private.

Sujit Jain: Okay. And our projects, what would be as a percentage of the total order book? That is infrastructure projects.

Sanjay Agrawal: It is not more than 5%.

Moderator: Thank you. The next question is from the line of Varun Agarwal from BOI AXA Mutual Funds. Please go ahead.

Varun Agarwal: One is in terms of your engineering business, how is competitive intensity in terms of orders from PGCIL and your private parties. Do you see impact due to TBCB norms impacting our margins? Or you think it's still as good as it was before the norms came?

Sharan Bansal: No, certainly you are right that the competition intensity has gone up significantly. Especially, the reverse auction by PGCIL and other state utilities are also bringing the prices down. But this is both, I would say, good and bad in a way, because I think cost efficient players like Skipper will have more and more of a market share in a high competitive scenario, where probably a lot of players with high cost structure will not be able to survive. And business will move from them to Skipper in the long run.

Varun Agarwal: Okay. So basically it is beneficially for us. And we will be able to maintain our margins?

Sharan Bansal: Yes, absolutely.

Varun Agarwal: Okay. Sir, second question. When you raised a growth target 20%, was it based on the volume numbers or more due to the commodity prices increase?

Sharan Bansal: No, the 20% growth that we are talking about is purely led by volume.

Varun Agarwal: So basically we generally increase our 15%-20% capacity in a year based on the demand scenario. So we will keep on doing that?

Sharan Bansal: Yes. Absolutely.

Varun Agarwal: Right. Sir, the second question on your polymer business. So if you can just elaborate a bit on the competition in terms of PVC business post GST scenario? And has it changed significantly from pre-GST? And how do you see the competitive scenario and pricing margins going forward?

Devesh Bansal: See, it's very clear that with the implementation of GST, there will be a large shift of customers, a large shift from unorganized to organized in this market. The unorganized portion of the PVC business is almost 40%. So we expect there to be a lot of migration from unorganized to organized in this sector. The organized players who are again operating nationally should get an advantage over the regional unorganized players. And our sense is that now that the initial effects of GST are gone, again organized players who are the major players like Supreme, Finolex, Astral, Aashirvaad, etc., and other organized players like us will definitely get a larger play field, both in terms of the organic growth in the market as well as the shift from unorganized to organized. So it's only going to benefit the organized players in the long run.

Varun Agarwal: So currently, we have around 51,000 tonnes capacity, right?

Devesh Bansal: Yes.

Varun Agarwal: So what are the plans for next two years? I mean, do we plan to expand it based on the demand? Or we have some target in place next two years, this is what you want to do?

Devesh Bansal: Definitely, we are only going to be expanding capacities based on utilization levels. So only when we see a reasonable utilization at any plant do we go in for a further capacity expansion. But on a two-year basis, we do expect all of these capacities to be expanded because we have a large target in mind. But again, additions in capacities are only going to be based on demand.

Varun Agarwal: Sir, capacity expansion plans. What are plans for capacity expansion in PVC. And for this year, we have given a growth target of around 25%, 30%. So how do we see this going forward in next couple of years? I mean, what are the plans? And can you also elaborate on the competitive intensities of pricing? How is the market?

Devesh Bansal: Well, the growth target of 25% for this year is there. But on a long-term level, we had estimated growth levels of 50% plus. Going forward from next year, we would definitely expect to achieve those numbers. In terms of the competitive scenario, as I mentioned, there should be a lot of consolidation in this industry. And only players which can reach a certain size and operate at the national level should be competitive going forward, rather than the regional unorganized players. So that is something that is also going to help us

expand further. And with regards to your last question about capacity addition, as I mentioned, we would only add capacities on demand basis. So currently, Skipper is operating out of six plants across the country. And we would only add capacities in each of these plants, as the demand in each of these regions is enough to justify that expansion. Like, for example, our South Indian plant is doing very well. And we might just go in for a capacity enhancement in that in the next couple of quarters, so is East. So it's on a very, very selective basis, as to wherever the demand is good, we would expand the capacities in those plants.

Varun Agarwal:

Okay. Sir, a question on dealers. How many dealers we have? And how many dealers we plan to increase going forward for next couple of years? Basically, my question is more to understand how much will come from the dealer addition and how much from...?

Devesh Bansal:

Yeah. So 90% of our business in the Polymer business comes from the channel partners. At the beginning of the year, we had approximately 3,400 to 3,500 recognized touch points, which we expect to take up to 5,000 by the end of the year. So we're in the process of that. These are basically channel partners who are recognized by the Company. There are further more channel partners who we do not directly engage with, but who also deal in our products. So these are the channel partners that the Company engages with on a regular basis.

Varun Agarwal:

Okay. So one last question on your JV. Without getting into too much detail, if you can just explain as to, we'll be into product or we'll be actually getting into some EPC business there?

Devesh Bansal:

So any serious player in the drip irrigation business can't afford to sell only products. There is an element of installation involved and designing of the solution involved as well. That would be the case for any good drip irrigation player like Jain Irrigation or Netafim. So definitely, the entire project work would also have to be undertaken by the Company, by the JV. And we would have to follow that trend.

Varun Agarwal:

Okay. So has the way the project are bid out changed in last the few years? I mean, will it lead to a working capital cycle expanding? So just if you can elaborate on it. Or we have some definitive plan in place to keep that in check?

Devesh Bansal:

I think it's a little early to be commenting on that on a very deep level. I think in the next, maybe, few months, we'll be able to talk about it in much more detail.

Moderator:

Thank you. The next question is from the line of Tarang Bhanushali from IIFL Wealth. Please go ahead.

Tarang Bhanushali: Sir, on the Railway side, you said we are tying up with local players. So will we jointly bid? Or we will bid and then the EPC part will be taken care by the local player and we would be supplying the material for the overheads?

Sharan Bansal: No. As I mentioned that, we will be adopting both strategies. Definitely, we will be focusing on supply of railway structures also. However, the contract which we have won right now or otherwise what we are favorably placed is for turnkey work. So although we may tie up with the local partners, but in some projects our scope will be only supply and some projects, we'll be doing the complete turnkey execution.

Tarang Bhanushali: So, will it be area-specific or it would be project-to-project specific?

Sharan Bansal: It will depend on project-to-project really. The strategy will have to be decided based on that project.

Tarang Bhanushali: Okay. And are the standalone orders for the supplies only from Railways? Or it is a composite order only always?

Sharan Bansal: No. Generally, the railway gives out composite orders only. In some cases, there may be some small supply orders.

Tarang Bhanushali: So we would be largely bidding with an EPC player in this?

Sharan Bansal: Yeah. Similar to what we do in the T&D business.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Asit C. Mehta. Please, go ahead.

Dhiral Shah: Will margins under drip irrigation will be same as Polymer business?

Devesh Bansal: I think it would really depend on the final entry strategy that the JV decides. It would depend on how aggressively we are trying to grow in this business. So again, I think that question is best answered once we are in a better position to talk about the overall strategy. But at the end of the day, on a broad level, it is a value-added service that the Company is getting into. So we would expect positive things in this.

Dhiral Shah: Okay. And, sir, as you said earlier, your FY19 CAPEX figure will be around 60 crores to 65 crores. So what will it be for, sir?

Devesh Bansal: That would be for both our Polymer as well as T&D expansion, our PVC pipes as well as our T&D expansion.

Dhiral Shah: So you are looking for increasing the capacity, right?

Sanjay Agrawal: See, capacity addition in case of engineering product is sure. But in case of polymer products, there might be some product addition also. Like, we are adding a lot more boards to our fitting side. So as Mr. Bansal has already mentioned that depending upon the demand picking up from each of the sector, we will add the capacity. But definitely, we are going to add the certain products basket in our polymer products.

Dhiral Shah: And, sir, no addition in engineering business?

Sanjay Agrawal: Engineering, we have mentioned this. 60 crores-65 crores for both the business.

Devesh Bansal: We would be looking at investing into our engineering business as well. Because we are looking at consistent growth on a year-to-year basis with the CAPEX for the engineering portion as well.

Dhiral Shah: Okay. And so any plan to reduce your debt?

Sanjay Agrawal: Definitely, we have every effort to reduce the number of debt. Even in the last financial year FY17, our overall number of debt was reduced from that was in FY16. And that's the obvious reason that, you should believe that we have every plan to reduce the number of debt.

Dhiral Shah: Okay. And lastly sir, what is the bid order book right now?

Sharan Bansal: Currently, our bids which are waiting results is approximately Rs. 800 crores.

Dhiral Shah: And how much is the L1?

Sharan Bansal: No. The L1 is only in the Railway electrification project, which is a small project which we mentioned.

Moderator: Thank you. The next question is from the line of Rakesh Roy from Asit C. Mehta. Please, go ahead.

Rakesh Roy: This question is regarding your solar business. In last con-call, you had mentioned about your solar business, solar project, sir?

Devesh Bansal: That's right. What's your question?

Rakesh Roy: Solar, sir. Solar business, sir. Because in last con-call, in first con-call, you have mentioned about your company is looking in solar business also?

- Sharan Bansal:** Right. So we have commenced the trial production for solar structures. And certainly, we are looking to get some good revenue coming in from this business, maybe by quarter four onwards.
- Rakesh Roy:** Right, sir. Sir, my last question is regarding, sir, you have added any capacity in engineering division, sir, this quarter, in last six months?
- Sharan Bansal:** Sorry, your question is, have we added capacity in the engineering products business in the last six months?
- Rakesh Roy:** Yeah.
- Sharan Bansal:** The last six months, we have only added the solar structures production capacity. Overall, I mean, as per our plan of increasing about 15% capacity in the year, it's difficult for me to put a number as to how much we have already done in the first six months. But you can assume we have added about 5% to 7% capacity in the first six months.
- Rakesh Roy:** Right now, this is 2.3 million, right?
- Sharan Bansal:** Yeah. But generally, the capacity numbers, we consider on the annual basis only. So our capacity in the beginning of the year was 230,000 tonne.
- Rakesh Roy:** Right, sir. By end of September, sir?
- Sharan Bansal:** By end of September, again like I said, we consider capacity only on the annual basis.
- Rakesh Roy:** Okay, sir. Sir, last question regarding your Guwahati plant. Is it running on 100% utilization or any improvement?
- Sharan Bansal:** Currently, Guwahati already has about 50% utilization level. We do expect that by quarter four, we should be achieving 80% to 90%.
- Moderator:** Thank you. We will take the next question from the line of Vikas Mantri from East India Securities. Please go ahead.
- Vikas Mantri:** I just had two questions. So my first question pertains to your guidance of 20% year-on-year growth. So this defers for the entire company, taking engineering and polymer products together?
- Sharan Bansal:** That's right.

Vikas Mantri: Okay. And we have been maintaining that we will be able to do an EBITDA margin of 13% in engineering division?

Sharan Bansal: That's right.

Vikas Mantri: So any guidance that you're giving for EBITDA margin on Polymer business as of now? Or will that be little tricky at this point of time?

Devesh Bansal: So the EBITDA numbers for the Polymer business have been at about 9% to 10% in the last couple of quarters. The target of the management is to keep it at around these levels only. But, yeah, it will be slightly tricky to actually give a concrete guidance on this at the moment.

Vikas Mantri: Okay. So going by your assumption that we will be able to clock a growth of close to 20%, so we are definitely, this year we are targeting Rs. 2,000 crores of revenue. And any guidance in the PAT margin that we will be able to achieve? Will it be better than last year, more or less similar to last year?

Sharan Bansal: I think in terms of margins, definitely, you can expect similar margins to last year. Because of the PVC division, the margin is not increasing as per our expectation because of low capacity utilization. Maybe we can't guide for an increase in margins right now. But for sure, you can at least expect the similar margins like last year.

Vikas Mantri: Sir, actually, I had attended conference call of few other PVC companies basically. So they were saying that in order to push the volume growth, they had to take a price cut for their products. So had something of this sort happened at our end also that due to GST we had to, in fact reduce prices in some markets, some reason specifically or we actually sacrificed some volumes? Or how was the scenario for us?

Devesh Bansal: So post GST you are right. In some locations, some geographies, it was the case, wherein there were some margin pressures. And which is also why the growth for us has been slightly restricted. But we are a margin conscious player. So we generally try and make sure that we balance growth with profitability. And that is why growth was slightly muted for us. But margins were at above 9% to 10% only.

Vikas Mantri: I assume the markets are back to normal at this point of time. So more or less whatever discounting has been done by competitive player should be back to normal at this point of time?

Devesh Bansal: Yeah. November onwards, it's getting back to normal. So we expect going forward to be a better situation.

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

HR Gala: Just one question from my side. As far as entire year FY17 is concerned, how much would have been that MTM gain, which was Rs. 12 crores in H1?

Sanjay Agrawal: Sir, this will be early to speak anything about the previous year regrouping figure, which are going to be there. So since it is a matter of audit, once the same will be audited and reclassified by the auditors and taking the M-to-M position from the respective dealers, then only this can be announced.

HR Gala: Okay. Because you know that, I think, similar adjustment we will have to consider in Q3 as well as Q4.

Sanjay Agrawal: It will be just a book adjustment. Just a book adjustment. So this has nothing to do.

HR Gala: No, that I agree with you. While going through the published numbers, I think these are the things which come on the surface, so one starts worrying.

Sanjay Agrawal: That's why every time when the numbers are getting reclassified, a reconciliation has given to the audited numbers itself. So that will be given in the subsequent quarters also.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Sharan Bansal: Yes. Thank you, all, for participating in our quarter two conference call. With your support and good wishes, the Company has delivered a good set of numbers again with consistent profitability in this quarter also. And we expect that in future also this strong performance will continue.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.