



“Skipper Limited
Q1 FY2024 Earnings Conference Call”

August 11, 2023



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**MANAGEMENT: MR. SHARAN BANSAL – DIRECTOR – SKIPPER LIMITED
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Moderator: Ladies and gentlemen, good day and welcome to the Skipper Limited Q1 FY2024 Earnings Conference Call hosted by Centrum Broking 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Rahull Kumar Mishraa from Centrum Broking Limited. Thank you and over to you Sir!

Rahull Kumar Mishraa: Thank you Raven. Good afternoon everyone. On behalf of Centrum Broking Limited, I welcome you all to the Q1 FY2024 conference call of Skipper Limited. The management side which represented by Mr. Sharan Bansal, Director, Mr. Devesh Bansal, Director, Mr. Shiv Shankar Gupta, CFO and Mr. Aditya Dujari – DGM, Finance and IR. I would now like to hand over the call to the management for their opening remarks post which we can take the question and answer. Over to you sir.

Sharan Bansal: Thank you Rahull. Good afternoon 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. Some of the key operational and financial highlights in comparison to previous year Q1 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 achieving growth of 33% over previous year quarter period while maintaining healthy operating EBITDA margins of 10.2%. The net revenue for the quarter stood at Rs.555 Crores, against Rs.416 Crores last year. The segmental revenue breakup were as follows, engineering Rs.358 Crores up by 15.6%, polymer Rs.128 Crores up by 46% and infra segment Rs.68 Crores up by 269 %. The company engineering export sales were at Rs.132 Crores and constituted 36% of overall engineering segment revenue. The company achieved its best ever first quarter revenue in the polymer business. Fueled by robust volume growth of 97%, our revenue surged by an impressive 46% compared to the previous year's Q1.

Years of dedicated efforts towards building a robust retail network for our Polymer business have now started showing encouraging results. Skipper pipes brand campaign launched on March 31, seeing excellent market acceptance. The consistent and robust demand growth we are experiencing is poised to be a steady trend making Skipper pipes the fastest growing polymer piping brand in India by far. Our quarterly operating performances excluding the impact of forex gain, loss were as follows:

Operating EBITDA increased to Rs.57 Crores and operating margins stood at 10.2%. The engineering segment operating EBITDA margins for the year stood at 12%, we have clocked the desired margin range of 12% to 13% now for past many quarters.

Going forth also we will see a consistent margin performance from this business on back of weather quality contracts and increase share of engineering export business from developed markets. The EBITDA margin for polymer business improved to 7.4%, with this business attaining scale and size continued to get benefitted from fixed cost getting rationalized over larger revenue base.

The consolidated PBT increased to Rs.23 Crores and PBT margins at 4.2% of sales for the current quarter against loss of Rs.53 lakhs in previous year Q1. The consolidated PAT increased to Rs.16 Crores and PAT margin at 2.9% of sales for the current quarter against loss of Rs.65 lakhs in the previous year quarter. Our JV Skipper-Metzer India LLP engaged in the business of manufacturing of drip and micro irrigation system continued to deliver good profitable performance and reported a PAT of Rs.4.5 Crores during the quarter.

The consolidated financial results include our portion of the same. On the order front, I am happy to inform you that the current year quarter was the best ever first quarter in the company's history. The company achieved its highest ever first quarter inflow we secure new orders in except of Rs.1215 Crores during the year against Rs.403 Crores last year registering year-on-year growth of 200%. During the quarter we secured export orders from countries of Egypt, Iraq, Bolivia, Australia, Nepal, and major projects of Power Grid Corporation.

The quarter enclosing order book stood at Rs.5372 Crores which is a highest ever in the company's history and is built 55 across sectors and segment. Share on T&D and non-T&D products equally split between 50-50. The domestic T&D environment is showing sign of strong rebound after two years of lukewarm response. Transmission project awarding activity which had taken a major hit in the recent past after an ESG relation litigation in the Supreme Court of project in Rajasthan and Gujarat; however, after a positive ruling from the court, project awarding has already picked up from Q1 FY2024 providing the necessary momentum for the domestic T&D industry.

The company is committed to leverage and address the vast potential of India's transmission sector with an integrated operation. With the government's accelerated efforts towards scaling renewable grided infrastructure and improving electrification in urban and rural areas Skipper is poised to support this growth. Further we expect good traction in the international transmission line to continue. Company is witnessing a surge in global

enquiries and getting benefitted from the China plus one trend. The global supply chain is actively scouting to minimize its dependency on China.

The company is consistently focusing to grow with export pie being connected and working with 150 global EPC players. Skipper is now looked up to as a serious player arm 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 add meaningful value within the project laid with innovative and cost effective design solution. Skipper would benefit from the pent up demand as the global economy opens up and the global focus and investment on building T&D infrastructure catering to renewable continues to grow.

The sector continued to witness uptake in both ordering and execution for the company and the company expects growth to gain further pay with increased participation opportunity across the globe. Just to inform, we are already in advance stages of negotiation and L1 to secure some good size international and domestic contracts. Further, the company looked forward to tap emerging opportunity the sectors aligned with the government raising interest.

Skipper raising diversification into the business of telecom, railway electrification, water EPC and drip irrigation business had tremendous potential aiming to strengthen its revenue stream. The tender pipeline for us to participate looks deep and the current bidding pipeline also remains strong at their all time higher level of Rs.12500 Crores with international share at Rs.6000 Crores and domestic at Rs.6500 Crores. Thank you. I am happy to take your questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Thank you so much for the opportunity. Firstly, I wanted to understand in the transmission power line, what is the opportunity size because of the renewable and rectification, telecom is going on right now, so what is the opportunity size of grid line in the segment of transport for transmission tower for next two to three years may be if you can explain what is the opportunity size and how much Skipper cater to a percentage?

Sharan Bansal: When we talk of the domestic market, we had shared earlier that in the month of December, (CEA) Central Electricity Authority came up with white paper projecting about the need for investment of Rs.2.4 Lakh Crores into the transmission grid for catering to connect about 500 gigawatts of renewable into the Indian grid. So that is the kind of outlook, one can expect up to 2030 in the domestic market. With regard to international market of course, we do not have complete secure because that would differ from country to country; however,

you may assume 1:1 investment between generation and transmission distribution where every dollar spent on generation needs to be matched with equal dollar investment in transmission and distribution. So, I would believe that would be the opportunity at a global level.

Gunjan Kabra: I wanted to understand that Rs.2.5 Lakh Crores is kind of expenditures that has been outlaid by the government, so how much is the opportunity size for transmission tower, because there will be other components as well. So, what is the market opportunity size for Skipper Limited is what I wanted to understand?

Sharan Bansal: You may assume market opportunity size for Skipper between 25% to 35%.

Gunjan Kabra: Thanks Sir. In the transmission tower, what kind of margin expectation, can we have your backward integrated as well, so what kind of margins can we think for transmission tower because of advantage of backward integration and going forward if the execution happens on time?

Sharan Bansal: We had maintained that on a blended basis, tower engineering product division is capable to deliver 12% to 13% on EBITDA basis, so we are already achieving that number and with the growth in business and better demand, we should be able to improve upon those margins in the future.

Gunjan Kabra: Okay and Sir inventory days and working capital days, I wanted to understand it is huge for company, so are we like planning, because if the market environment turns into the company face off, so what kind of days are you targeting to further working capital days, what kind of days are we targeting?

Shiv Shankar Gupta: As you said this is a backward integrated plan we need to keep inventory for partner division and for tower manufacturing, so our inventories currently had those five months level and the total network days is roughly four months 130 odd days, it is the same as of year ended March also and June quarter was also same at 130 days.

Sharan Bansal: We are having an improvement in the debtor number of days last year where we were able to bring down our debtor days from 100 days in FY2022 to about 70 days in FY2023, this year also we can hope for further improvement on the debtor number of days; however, as Shiv ji explained that due to the backward integration nature of operation of the company, our inventory cycle is either about five months' time and we are quite comfortable with that.

- Gunjan Kabra:** Okay, got it. Sir, in the global market how is the market structure, how many players that even in the U.S and the Europe market is mainly cater to by the Chinese market? Or how is the structure in the global market specifically in the U.S or the Europe?
- Sharan Bansal:** World over there exist local players all over the world including the U.S, Canada and other European geographies. There are small or medium sized players across the globe who cater to mostly regional demand; however, when it comes through large manufacturers Skipper would rank among the top five manufacturers for T&D structure in the world and we are operating very few companies are operating at multi-country level, multi-continent level as Skipper is doing. We do have competition from certain Chinese and Turkish companies; however, with the growing China plus one strategy being adopted by many, many countries, the opportunities are opening up more and more for Skipper.
- Gunjan Kabra:** Okay. Apart from the BSNL or other, what kind of order execution can we expect in this year?
- Sharan Bansal:** Apart from the BSNL, in the first quarter, as we reported we did take order intake of about Rs.700 Crores from Power Grid Corporation for the new transmission lines to be built in the state of Andhra Pradesh, in the state of UP and the state of Rajasthan. We are expecting some more tenders we finalized in the state of Rajasthan and Gujarat in the coming quarters, so some amount of execution of those projects should also come in, apart from the BSNL execution.
- Gunjan Kabra:** Okay, but the project for which we have already received the orders, they are on time, just wanted to check that? Or are there any delays in the execution on those orders?
- Sharan Bansal:** The usual challenges are there in project execution concern, but nothing out of the ordinary. We should be able to complete all projects contract.
- Gunjan Kabra:** Okay. I will get back in queue for further questions and congratulations for reporting such great numbers.
- Moderator:** Thank you. The next question is from the line of Rahull Kumar Mishraa from Centrum Broking. Please go ahead.
- Rahull Kumar Mishraa:** Thanks for the opportunity. First of all congratulations on a good set of numbers. Sir, my question pertains to the export side, so as you mentioned in the initial remarks that we have got some orders from international market, so if you could throw some ballpark figure in terms of how much margins that they could generate for the company, if you know the exact figure and what is your expectations for FY204 export margins?

Sharan Bansal: As we have maintained in the past export project do compete about 2% to 3% better margins, so just a way we saw growth in export revenue last year, we should also be seeing growth in absolute number basis; however, since the domestic ordering and execution is also strong may be on a percentage basis, we might not see growth in export and order execution.

Rahull Kumar Mishraa: My next question also pertains to the export market so if you can just share about the building pipeline and is there any new region which is giving of incremental orders or if you are seeing any new region giving us new orders or we are seeing incremental orders from the region where we already have strong presence?

Sharan Bansal: Current bidding pipeline in international market is about Rs.6000 Crores. We are seeing growth in the number of markets including our traditional market which are in developing countries like Latin America region or the Middle East region and Africa region. These are continuously seeing demand; however, what is more encouraging is that we are seeing growth in demand from more developed economies as well, for example, Australia and even North America, so both these countries we are seeing better than better enquiry for larger and larger projects and as we do better or more projects in the developed countries we can work for even more margin expansion.

Rahull Kumar Mishraa: Okay and sir if you could help us understand the competitive intensity that we could face or that we are currently facing in the international market?

Sharan Bansal: I would say that as I mentioned to the previous analyst that there are very few companies which are of Skipper Scale and Size, so, honestly we do not pay that kind of competition from other large global manufacturer, the only other series competition that we have from China and from Turkey and more and more countries are choosing to buy less from Chinese manufacturers. So honestly our competition remains only with Turkish manufacturers, we do find that sea freight is concerned after COVID in 2020 and 2021, we saw an exponential increase in sea freight with world's reducing our competitiveness; however, now sea freight rates have now come back to pre-COVID level, so we see no challenge where competitiveness is concerned rather as I mentioned earlier we see opportunity for lot of margin expansion when we actually compete with the local regional players in various countries who are probably not as competitive as what we are.

Rahull Kumar Mishraa: Thanks for answering my question. If I have any more questions I will join back in the queue. Thank you.

Moderator: Thank you. The next question is from Dhruv Agarwal from Niveshaay Investment Advisors. Please go ahead.

- Dhruv Agarwal:** Congratulations on the good set of numbers. Sir, basically I have questions regarding generally in industry on an average, in polymer segment somewhere around 14% then why are we like getting such a low margin, can you throw some light on that sir?
- Devesh Bansal:** Basically, in the polymer segment, we are still scaling up. As you see the margins have improved from last year to this year as our topline has improved and as this increases further over the next few quarters, we expect the margins to also significantly improve from these levels.
- Dhruv Agarwal:** Okay. If we can see like from March 2015 to March 2018, we were having great margins in engineering and polymer segment, so when can we expect to get that margins once again sir?
- Devesh Bansal:** Probably polymer segment I can tell you that we will see steady improvement in margins as we go along. In the engineering segment like we have mentioned our margin expectation is in the range of 12% to 13% on an operating level and we are very confident of achieving goals.
- Dhruv Agarwal:** Okay and sir, one more question is what is the cheapest source to get the raw material sir and from where do we get that whether from exports like whether from internationally or domestically sir and bifurcation for the same sir?
- Devesh Bansal:** It is a combination and it keeps changing from time to time, so we do input raw materials as well as by domestically, so it depends on the market situation from time to time, so it is not any fixed budget.
- Dhruv Agarwal:** In current financial year like 2023 what was the presentation if you can disclose sir?
- Devesh Bansal:** I do not think that is an information that we shared, but in general it is a mix between domestic and international and obviously we are ambiguous to it.
- Dhruv Agarwal:** Okay sir and how do we see the power demand from 5G rollout , for that does the telecom completely additional towers or not sir?
- Devesh Bansal:** There is significant demand increase on telecom side from both the 5G expansion as well as other projects such as BSNL project that we have received and we expect this trend to continue for at least in the next couple of years wherein lot many sites will have to be deployed, so there is going to be very good traction for telecom tower.
- Dhruv Agarwal:** If you exclude that BSNL tower like in future, do you expect anything from towers like from 5G roll out?

- Devesh Bansal:** Currently also we are operating in the 5G sales, so operators like Reliance, Jio like Indus Towers and others. They are expanding rapidly in the 5G space as well and we are participating in all of those requirements.
- Dhruv Agarwal:** Okay and sir any capex plan in the coming years like FY2024-2025?
- Shiv Shankar Gupta:** We have capex plan of Rs.75 Crores for this financial year.
- Dhruv Agarwal:** Okay and it will be used for?
- Sharan Bansal:** We used for further some part of it will go to our maintenance capex and some part will go to capacity optimization and increase.
- Dhruv Agarwal:** Okay. Sir, as we like can see very already under utilization of the capacities, so can you throw some light on that sir?
- Sharan Bansal:** But this year stands to the order book that we have secured last year, we do expect that the capacity utilization will be much higher this year compared to last year and we will need capacity expansion this year to cater to further growth next year.
- Dhruv Agarwal:** Can you quantify like if what is the capacity addition sir?
- Shiv Shankar Gupta:** There is no specific capacity enhancement, but there would be reduction of bottlenecks in the production. So what happens is when this order come, we are strong on which will give us the maximum output at the end. So our capacity enhancement otherwise would be from in case of engineering, it would be from 74% in the last financial year. This year we are expecting it to be over 85% and for polymer segment it would be from 42% in the last financial year to over 60% this year.
- Dhruv Agarwal:** Okay sir. Thank you so much sir. If there is any further question, I will join the queue sir.
- Moderator:** Thank you. The next question is from Rahull Kumar Mishraa from Centrum Broking. Please go ahead.
- Rahull Kumar Mishraa:** Thanks for the follow up. My question is pertaining to the domestic market, so in the last quarter we saw there was a lot of pent up demand in domestic T&D as most of the tenders got postponed and they must be coming in the subsequent month, so do we see the traction of incremental of projects coming from domestic sector. If yes then which are states are we seeing healthy demand coming from?

Sharan Bansal: Yes, we are seeing a lot of traction and demand coming in the domestic sector and majority of the projects will be coming in the state of Rajasthan and Gujarat.

Rahul Kumar Mishraa: And sir, what could be the margin profile if you could share?

Sharan Bansal: As I mentioned earlier our engineering product portfolio should continue to do at about 12% to 13%.

Rahul Kumar Mishraa: Okay, fine, fair enough. Sir, my next question is on the water EPC projects that we want last quarter that was for about one billion, Rs.100 Crores project, so as a company what was the size that we are targeting for the entire year and what is our aspiration like to grow in this particular domain, so what market share are we targeting to gain?

Devesh Bansal: This is the first water EPC project that the company has undertaken and while the market opportunity is very, very large. We are moving cautiously ended and we are waiting for this first project to see some amount of execution and rolling to happen before we undertake new project. We foresee the demand to go down in the next two to three years, so there is the opportunity, but for the current year I think with the restricting ourselves to this particular project.

Rahul Kumar Mishraa: Thanks a lot for your answer. That is all from my side.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak. Please go ahead.

Jatin Damania: Thank you for the opportunity sir. If you look on a sequential basis, the bidding pipeline on the tender, pipeline has increased from the domestic market from Rs.3500 Crores last quarter to almost Rs.6000 Crores, so any tenders in terms of both exports and the domestic market when this tender could be awarded and margin profile for this tender?

Sharan Bansal: Could you repeat the question please?

Jatin Damania: As you look even in the last quarter, our tender book or the bidding pipeline was about Rs.9500 Crores and currently the number is around Rs.12500 Crores, so we had seen significant increase in the tendering pipelines from the domestic market, so just wanted to understand the margin profile and when tendering would be awarded and the margin profile for domestic as well as the international business?

Sharan Bansal: As I mentioned earlier that the domestic projects have started to see award, in the first quarter also we secured orders of about Rs.700 Crores from Power Grid more such orders are in the pipeline, so in terms of award consistently we will keep seeing every quarter more

award coming up and with regards to margin, though domestic margins also are at a healthy level right now, because of increased demand. International project do give 2% to 3% better margins; however, currently we are seeing the domestic margins are also at a healthy level.

Jatin Damania: Agreed, I mean export business gives higher margin as compared to domestic and given order book tender toward the export market, do we think that 12% to 13% margin that is even in engineering products, will it be lower that would be further offset to the number?

Sharan Bansal: No, there is no chance of lowering of that margin. We will consistently try to improve upon it.

Jatin Damania: Right and secondly sir, just a few guidelines on the polymer business. So everyone knows that market on the polymer going and grown in the last few years and market share just quite minimal. So, as a company what are we doing because last quarter BSNL we have increased our distribution and we are focusing in branded activity, so what are the capex we have taken to increase the market and the polymer business?

Devesh Bansal: As you can see the growth in our polymer business has been very, very healthy. We have almost doubled the revenue compared to last quarter, previous year quarter. The volumes have grown by more than 97% and the revenues have grown by more than 46%, so we are growing at a very fast pace and you are right, market is very bullish and the demand is going to be very, very strong for the next few years and we hope to take advantage of that and grow aggressively in this business.

Jatin Damania: Is it safe to assume that probably two three years down the line, the current markets are at 1%, can we reach to 2% in the next two to three years?

Devesh Bansal: For the target is to be higher than that, but yes, I mean we continue growing in this and we will see how the market plays.

Jatin Damania: Thank you sir. That is all from my side.

Moderator: Thank you. The next question is from Dhruv Agarwal from Niveshaay Investment Advisors. Please go ahead.

Dhruv Agarwal: Thank you for the opportunity once again. Sir, what would be the domestic market size of engineering and polymer segment and what would be the share of Skipper in that sir?

Sharan Bansal: With regard to the engineering segment because it is the combination of multiple sectors, engineering segment has multiple products, transmission towers, transmission monopoles, distribution pole, railway electrification structure, telecom towers, so honestly to combine

all the different sectors and speak about the market size would be a little difficult; however, we are the largest manufacturer for T&D and telecom structures in India and among the largest manufacturers in the world. With regard to polymer market segment, the total market size opportunity would be about Rs.35000 Crores in polymer piping segment and obviously, as Devesh sir was mentioning, right now at a small base and a small market share, but there is plenty of headroom to grow.

Dhruv Agarwal: Okay, can you throw some light on the percentage sir, what would be going at a percentage sir in the coming year?

Devesh Bansal: Currently, we are at 1% of the market share in polymer, obviously we cannot put a number to it, but yes like we experienced good growth last year and this year in first quarter we have already seen 50% growth, so I think our focus will remain on increasing this number and obviously to grow profitable.

Dhruv Agarwal: Okay and sir, one more question, do we had any plan from debt reduction sir?

Devesh Bansal: Yes, as the company margin profile improves and working cycle improves, definitely we have achieved debt reduction last year despite a growth in revenue, so we should see better and better company internal accruals. The company management is also considering various equity raising option for which we are going to be meeting on 16th of this month to take a final decision.

Dhruv Agarwal: Okay and sir, one last question, what is the future outlook for the topline sir like any percentage?

Devesh Bansal: Yes, we have guided earlier had 25% CAGR growth over the next three years.

Dhruv Agarwal: So like are we positive on that outlook sir?

Devesh Bansal: I am sorry once again.

Dhruv Agarwal: My question was are we positive on that outlook sir?

Devesh Bansal: Yes, we are very positive.

Dhruv Agarwal: Okay. Thank you so much sir.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Aditya Dujari:

We are confident of delivering profitable revenue growth with a consistent margin in the current year and expect to clock revenue growth in excess of 25% CAGR for the next three financial years on back of expanding engineering contracts and strong polymer segment performance. Our diversification into international markets and sectors will help us to choose higher margin order coming our way and provide us an opportunity to be the choice across the sectors aiding to continued better margin performance, improved bottomline profitability and capital return ratios in the coming quarters. We will continue to focus on improving bottomline profitability, stabilize operating cash flows, trim our debt thereby leading to improvement of the company's margin profile and the strengthen its balancing position and capital return ratios. The company efforts towards sustainable business practices will help to achieve its goal by making meaningful contribution to national and global infrastructure. We appreciate your continued support. Look forward to interact with you again in the next quarter. Thanking you.

Moderator:

Thank you very much. On behalf of Centrum Broking Limited that concludes the conference. Thank you for joining us ladies and gentlemen and you may now disconnect your lines.