Skipper Limited

March 27, 2018

Ratings

Facility/Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long -term Bank Facilities	588.41 (enhanced from 458.70)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Long /Short-term Bank Facilities	1400.00 (enhanced from 1300.00)	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	Long term rating: Revised from CARE A+; Stable (Single A Plus; Outlook: Stable) Short term rating: reaffirmed
Total	**1,988.41 (Rupees One Thousand Nine Hundred Eighty Eight Crore and Forty One Lakh Only)**		
Commercial Paper issue*	**200.00 (enhanced from 100.00) (Rs. Two Hundred crore only)**	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1
** changed from carved out to standalone*

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long-term bank facilities of Skipper Limited (SL) takes into account improvement in the financial performance in FY17 & 9MFY18 marked by consistent increase in turnover of the company with consistently healthy cash accruals and healthy debt protection metrics. Healthy order book position provides revenue visibility.

The ratings continue to draw comfort from the experience of the promoters, strategic location of the plants, reputed clientele, backward integration for majority of raw material leading to healthy operating margin, and satisfactory liquidity position. The ratings are, however, constrained by working capital intensive nature of operations, moderate profitability of the PVC division and dependence on the growth of the infrastructure sector.

Timely execution of the contracts and realization of receivables thereof, further improvement in capital structure and any significant debt funded capital expenditure in the medium term would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and satisfactory track record

The Bansal family has long presence in the engineering products industry with Mr. Sajan Kumar Bansal having varied experience of more than three decades in manufacturing of pipes, tubes, poles, towers, and fabricated structures.

Strategic location of plants and expansion in PVC division

The plants are located in Howrah and Ulberia, West Bengal which is in proximity to source of raw material (as major steel plants are located in Eastern India) as well as Haldia port, which gives significant freight cost advantage to the company. The company has also set-up and commissioned an engineering product division of 30,000 MTPA in Guwahati in March 2017, which has also received approval of PGCIL for supply of galvanized tower structure/parts. The plant set-up in North East was set-up under North East Industrial and Investment Promotion Policy (NEIIPP).

These multi-locational manufacturing facilities will help in saving freight costs, aid margin expansion and capture market in various regions. The company has also increased its dealers and channel partners from 1500 dealers in FY16 to 3500 dealers in FY17, spread across India.

Backward integration providing considerable shield to price volatility

Raw material accounted for 79%-80% of cost of sales in three year period frame (FY15-FY17). The major raw materials for transmission tower are steel products, zinc and PVC resins. The company has backward integration for hot-rolled products (captive MS angles and channels, HR strips). Having the backward integration, availability of billets within the state and presence of price escalation clause (for majority of domestic and export orders) insulates the company from raw material

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

price volatility and availability risk, to a great extent.

Reputed clientele base and satisfactory order-book position; providing adequate revenue visibility

SL's clientele includes various reputed public as well as private sector players in the power transmission, construction and real estate sectors. SL's order book position for transmission tower division stood at Rs.2,208 crore as on September 30, 2017. The other division (EPC, poles, etc.) of the company comprises order aggregating Rs.432 crore as on September 30, 2017. The strong order book provides revenue visibility in the short to medium term.

Improvement in financial performance marked with healthy growth in turnover in FY17 and 9MFY18

Financial performance of the company continued to remain satisfactory marked by increase of around 15% in net sales of the company in FY17 vis-à-vis FY16. The volume drive was on account of high demand of engineering and PVC in the domestic market. The operating margin of the company declined on account of increase in employee cost of the company, due to increase in channel partners from 1500 in FY16 to 3500 in FY17. The PAT level and margin improved in FY17 vis-à-vis FY16 on the back of higher increase in PBILDT level vis-à-vis increase in capital charges of the company.

In 9MFY18, the net sales of the company increased by 34% y-o-y, primarily driven by sale volume growth in engineering product segment and rising commodity prices. The operating margin declined on account of increase in the employee cost of the company and other manufacturing expenses in 9MFY18 vis-à-vis 9MFY17. The PAT level and margin of the company moderated in 9MFY18 on account of higher increase in capital charges (primarily depreciation) vis-à-vis PBILDT level. The company reported cash accruals of Rs.100.69 crore in 9MFY18 vis-à-vis full year debt repayment of 21.98 crore.

Improvement in the capital structure and debt protection metrics of the company

The capital structure of the company improved, with overall gearing at 1.14x as on March 31, 2017 vis-à-vis 1.53x as on March 31, 2016 on the back of repayment of unsecured loan coupled with accretion of profit to reserves. The overall gearing further improved and stood at 1.09x as on December 31, 2017.

Total debt to GCA of the company also improved and stood at 3.71x as on March 31, 2017 vis-à-vis 4.62x as on March 31, 2016 on account of increase in the cash accrual level in FY17 vis-à-vis FY16 coupled with decline in the total debt level of the company.

Key Rating Weaknesses

Moderate profitability of the PVC division

As the PVC product is in the initial stage the company is facing intense competition from the large players. The margin for the segment has remained moderate which is expected to improve with gradual scaling up of SL's product.

The company has tied-up with Metzerplas of Israel to make Drip Irrigation Systems, which is one of the largest and most specialized manufacturers of Drip Irrigation Solutions from Israel.

Working Capital Intensive operations; though effectively managed

The operation of SL is working capital intensive in nature on account of high inventory period of about around two and a half months and credit period offered to customers of around two and a half month to three months while payment to its suppliers are met in around two months. However, the company was able to save on interest cost through effective management of working capital limits. Current ratio also improved and remained satisfactory as on March 31, 2017. The average utilisation of working capital limits (including CP) stood at around 72% for 12 months ending February 2018.

Prospects

Timely execution of the contracts and realization of receivables thereof, further improvement in capital structure and any significant debt funded capital expenditure in the medium term would remain the key rating sensitivities.

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Company

SL, promoted by Mr. Sajan Kumar Bansal of Kolkata, was incorporated in May 1981. SL is engaged in manufacturing of engineering products (transmission and distribution towers for power sector) and PVC water pipes (UPVC pipes, CPVC pipes, SWR pipes, Agri Pipes) and related accessories. Engineering products (with an installed capacity of 2,30,000 MTPA) is the major contributor to the revenue of the company (accounting for 90% of gross sales in FY16). In the PVC water pipes division, the company has an installed capacity of 41,000 MTPA. SL has three manufacturing units located in Jungalpur and Uluberia, West Bengal. SL has backward integration in the form of its own manufacturing facilities for hot rolled products and nut bolts. The company had received 'Largest Tower Supplier' award by Power Grid Corporation of India Limited (PGCIL) in the tower supply category for the second consecutive year in FY17.

Financials of Skipper Limited

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1484.17	1692.75
PBILDT	213.69	236.54
PAT	95.13	111.50
Overall gearing (times)	1.53	1.14
Interest coverage (times)	3.30	3.47

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	425.00	CARE AA-; Stable
Term Loan-Long Term	-	-	Mar-2020	6.00	CARE AA-; Stable
Term Loan-Long Term	-	-	Sep-2018	6.04	CARE AA-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1120.00	CARE AA-; Stable / CARE A1+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	280.00	CARE AA-; Stable / CARE A1+
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	Mar-2021	15.75	CARE AA-; Stable
Term Loan-Long Term	-	-	June-2024	135.62	CARE AA-; Stable
Commercial Paper	-	-	7-364 day	200.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	425.00	CARE AA-; Stable	1)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)	1)CARE A- (08-Sep-14) 2)CARE BBB+ (24-Jul-14)
2.	Term Loan-Long Term	LT	6.00	CARE AA-; Stable	1)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)	1)CARE A- (08-Sep-14) 2)CARE BBB+ (24-Jul-14)
3.	Term Loan-Long Term	LT	6.04	CARE AA-; Stable	1)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)	1)CARE A- (08-Sep-14) 2)CARE BBB+ (24-Jul-14)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1120.00	CARE AA-; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (14-Apr-17)	1)CARE A+ / CARE A1+ (27-Oct-16)	1)CARE A+ / CARE A1 (02-Sep-15)	1)CARE A- / CARE A2 (08-Sep-14) 2)CARE BBB+ / CARE A2 (24-Jul-14)
5.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	280.00	CARE AA-; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (14-Apr-17)	1)CARE A+ / CARE A1+ (27-Oct-16)	1)CARE A+ / CARE A1 (02-Sep-15)	1)CARE A- / CARE A2 (08-Sep-14) 2)CARE BBB+ / CARE A2 (24-Jul-14)
6.	Term Loan-Long Term	LT	-	-	1)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)	1)CARE A- (08-Sep-14) 2)CARE BBB+ (24-Jul-14)
7.	Term Loan-Long Term	LT	15.75	CARE AA-; Stable	1)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)	-
8.	Commercial Paper	ST	200.00	CARE A1+	-	1)CARE A1+ (17-Mar-17) 2)CARE A1+ (27-Oct-16)	1)CARE A1 (23-Oct-15)	-
9.	Term Loan-Long Term	LT	135.62	CARE AA-; Stable	1)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	-	-

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