Skipper Limited

April 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	604.62 (enhanced from 556.12)	**CARE A; Negative (Single A; Outlook: Negative)**	**Reaffirmed**
Long/Short-term Bank Facilities	1,400.00	**CARE A; Negative/ CARE A1 (Single A; Outlook: Negative/A One)**	**Reaffirmed**
Total Bank Facilities	**2,004.62 (Rupees Two Thousand Four crore and Sixty Two lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had revised the ratings assigned to the bank facilities of Skipper Ltd (SL) from CARE AA-; Stable (Double A Minus; Outlook; Stable) and CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/A One Plus) to CARE A; Negative (Single A; Outlook: Negative) and CARE A; Negative/ CARE A1 (Single A; Outlook: Negative/ A One) vide its press release dated March 11, 2019. CARE has now reaffirmed the ratings at CARE A; Negative (Single A; Outlook: Negative) and CARE A; Negative/ CARE A1 (Single A; Outlook: Negative/ A One) for the enhanced bank facilities of SL.

The revision in the ratings assigned to the Bank Facilities of Skipper Limited (SL) was on account of significant deterioration in the financial performance of the company in 9MFY19 triggered by weak performance of polymer division, rise in raw material cost impacting profitability of fixed cost contracts consisting of nearly 30% of orders and slow-down in execution by SL. This apart, increased financial cost as a result of increased borrowings and forex loss in 9MFY19 (as against forex gain in FY18) resulted in moderation in debt protection metrics. The rating action is due to the performance of SL in 9MFY19 not being in line with as envisaged by CARE Ratings.

The ratings continue to draw strength from its experienced promoters having satisfactory track record, strategic location of the plants, majority of domestic orders backed by Power Grid Corporation of India Ltd (PGCIL; rated CARE AAA/ CARE A1+) and stable outlook for infrastructure sector in India. The ratings are, however, constrained by working capital intensive operations resulting in high utilisation of working capital limits, stagnant order book position, moderate capital structure and moderation in liquidity position. CARE also notes that the company is in the process of demerging its polymer division (contributing to nearly 10% of revenue in FY18) into a separate entity, to give focus to individual business segments.

Ramping up of order execution, managing working capital effectively and improvement in capital structure remain the key rating sensitivities. Further, any significant debt funded capital expenditure in the medium term would be a key rating monitorable.

Outlook: Negative

The outlook is 'Negative' in view of expected weak performance in FY19 due to slow execution of orders and presence of fixed cost contracts in order book.

The outlook may be revised to 'Stable' on improvement in profitability and liquidity parameters and reduction in debt levels.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and satisfactory track record

The Bansal family has long presence in the steel 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

The engineering division plant is located in Howrah and Uluberia, 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. SL had also set-up and commissioned an engineering product division of 30,000 MTPA in Guwahati in March 2017. The manufacturing unit was set up in Guwahati to cater to the growing infrastructure requirement of North East. The plant is also eligible to enjoy tax benefits under North East Industrial and Investment Promotion Policy (NEIPP), 2007.

For PVC segment, SL has set up facilities across various geographical locations with a view to have a pan-India presence. Currently, it has facilities in Howrah, Ahmedabad, Sikandrabad, Guwahati and Hyderabad, wherein it has got the land and plant on lease and has purchased the machinery.

These multi-locational manufacturing facilities helps in saving freight costs, and capture market in various regions.

Presence of backward integration; though execution of fixed cost contracts resulted in shrinkage of margin

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

Raw material accounted for around 80% of cost of sales in the last three years (FY16-FY18). The major raw materials for transmission tower are billets, HR Coil/HR Strip, zinc, PVC resins and MS angles and channels. The company has backward integration for hot-rolled products (captive MS angles and channels, HR strips). It also has facilities for manufacturing of fasteners and accessories for towers, which provides control over quality and price volatility. As stated by the management, around 30% of the orders are fixed cost in nature. Hence, any adverse movement in raw material prices results in impact on profitability to that extent.

Empanelled with large number of domestic and international bodies for supply of material

The products manufactured by SL are largely customised engineering products. For the supply of these products, empanelments with various bodies/companies are required. Accordingly, over the years, SL has empanelled itself with large number of leading domestic bodies/companies. Empanelment, with such large number of domestic and international bodies/companies grants SL access to work for large number of established clients in their respective segment.

Favourable outlook for infrastructure sector in India

The long-term demand outlook for the domestic power transmission infrastructure is expected to be favourable as the Indian government continues to exert significant thrust on the sector. Huge investments have been planned and massive network interconnectivity is envisaged, with a focus on affordability and reliability, including substantial outlays by the states for expanding the intra-state transmission infrastructure, in addition to PGCIL's annual capital outlay. Amidst all these developments, on the ground level, issues related to smooth and timely project execution are quite dominant which include challenges such as Right of Way (RoW), land acquisition, environmental and forest clearances, end users (like power plants) not being ready, etc., impacting the project completion timelines. The Indian government envisages addition of 105,580 KMs of transmission lines and 292,000 MVA of transformation capacity addition between 2017-2022, necessitating a humongous investment to the tune of Rs.2,60,000 crore.

The domestic demand will be driven by expected increase in activity in affordable housing segment & increased government expenditure on infrastructure.

Key Rating Weaknesses

Deterioration in the financial performance of the company in 9MFY19

Net sales of the company increased by 25.8% in FY18 over FY17 on the back of higher volume sale of engineering products, with commissioning of enhanced capacity of 30,000 MTPA in Guwahati in March 2017. Though the PBILDT level of the company increased in FY18 vis-à-vis FY17, the margin declined marginally on account of increase in the employee cost.

The PAT level and margin of the company witnessed decline in FY18 vis-à-vis FY17 on account of increase in interest cost due to higher utilisation of working capital, higher depreciation charge due to installation of new capacities and reduced foreign exchange gain of Rs.28 crore in FY18 vis-à-vis Rs.53 crore in FY17.

The company generated comfortable GCA of Rs.155.12 crore vis-à-vis debt repayment of Rs.21.78 crore in FY18. However, cashflow from operation was low at Rs.60 crore in FY18.

The operating income witnessed a decline in Q3FY19 vis-à-vis Q2FY19 and Q3FY18 on account of slower project execution, lack of short term orders and slowing down of supplies by the company to the customers where payments are slow. The operating profit level and margin also deteriorated in 9MFY19 vis-à-vis 9MFY18 on account of high prices of key raw materials (steel and zinc), which impacted implementation of fixed price contracts, and weak performance of polymer division. The performance of engineering division was also impacted by slow execution of order by SL in view of lower release of orders by PGCIL, major end user of SL's products, leading to lower utilisation of existing plant capacity, and lower absorption of fixed cost. Finance cost increased in 9MFY19 vis-à-vis 9MFY18 due to higher utilization of working capital borrowings. Moreover, SL incurred forex loss of Rs.5.4 crore in 9MFY19 vis-à-vis forex gain of Rs.29.58 crore in 9MFY18. Hence, lower PBILDT, higher interest cost along with loss on forex fluctuation vis-à-vis gain in 9MFY18 led to substantial decline in PAT level and margin. SL earned GCA of Rs.45.75 crore during 9MFY19 as against GCA of Rs.100.69 crore during 9MFY18.

Stagnant order-book position with majority of orders from PGCIL

SL's clientele includes various public as well as private sector players in the power transmission, construction and real estate sectors, with major end user being PGCIL. The company has an export foot-print in 28 countries across South America, Europe, Africa, Middle East, South East Asia and Australia.

The total order book witnessed a decline from Rs.2,639 crore as on September 30, 2017 to Rs.2,347 crore as on September 30, 2018 and stood at Rs.2,638 crore as on December 31, 2018 out of which 87% pertains to domestic orders and 13% pertains to export orders. SL's order book position for transmission tower division (constituting 86% of net sales in FY18) stood at Rs.2,072 crore as on September 30, 2018 (vis-à-vis Rs.2,038 crore as on September 30, 2017) which is almost 1.15x of its revenue from the division in FY18. PGCIL contributed to majority of orders in hand over the last three years.

Decline in foreign currency gain in FY18 and forex loss in 9MFY19

SL has received long term orders for its transmission business from various countries. The company adopts a policy of selective hedging based on risk perception of management using derivative to mitigate or eliminate the foreign currency risk. During FY18, SL earned Rs.27.62 crore (P.Y. Rs. 52.64 crore) before tax towards such derivate gains out of which

Rs.60.1 crore is realized derivative and foreign exchange gain while Rs.32.48 crore is unrealized derivative and foreign exchange loss on cancellation/roll over of forward contracts (foreign currency) relating to future export sales. Apart from above, the company also has un-hedged foreign currency exposure in terms of import payables, foreign currency loans, buyer's credit loan, trade payables, capital commitments and packing credit loan which amounts to Rs.119 crore as on Mar.31, 2018 (P.Y. Rs.66.41 crore).

In 9MFY19, SL incurred a loss of Rs.5.40 crore (gain of Rs.29.58 crore in 9MFY18) towards derivative and foreign exchange. Out of this, Rs.14.24 crore is realized derivative and foreign exchange loss (Realized gain of Rs.41.39 crore in 9MFY18) while Rs.8.84 crore is unrealized derivative and foreign exchange gain (Unrealized loss of Rs.11.81 crore in 9MFY18).

Moderate capital structure

The overall gearing ratio of the company improved from 1.05x as on March 31, 2017 to 0.98x as on March 31, 2018, however, the same deteriorated to 1.16x as on Dec.31, 2018 on account of increase in working capital borrowings. Total Debt to GCA of the company deteriorated from 3.26x as on March 31, 2017 to 4.01x as on March 31, 2018 and further to 12.36x as on Dec.31, 2018 on account of decline in GCA along with increase in the debt levels. Also, Total Debt to Cash flow from operations deteriorated from 5.25x as on March 31, 2017 to 10.44x as on March 31, 2018.

Interest coverage ratio of the company improved and stood at 3.74x in FY18 vis-à-vis 3.49x in FY17 on the back of higher increase in PBILDT level vis-à-vis the interest cost. However, the same deteriorated to 1.73x in 9MFY19 on account of decline in PBILDT along with increase in the interest cost.

Liquidity Analysis

The liquidity position has moderated in view of elongating debtors' collection period and inventory holding period, resulting in low cashflow from operation of Rs.60 crore in FY18. The company's capex stood at Rs.57 crore in FY18, funded through term loan of Rs.27 crore and balance out of internal funds. Weak financial performance in 9MFY19 also led to lower GCA in current year. The company expects capex of Rs.40 crore in FY19. The average working capital utilization of the company remained high at around 89% during the last 12 months ended December 2018. The cash and bank balance (including margin money) was low at Rs.20.6 crore as on September 30, 2018.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for Steel companies]
[Rating Methodology – Infrastructure Sector Ratings]

About the Company

SL, promoted by Kolkata-based Mr. Sajan Kumar Bansal, was incorporated in 1981. SL is engaged in manufacturing engineering products (towers and poles for power sector), PVC water pipes (UPVC pipes, CPVC pipes, SWR pipes, Agri Pipes) and providing infrastructure services (EPC).

Engineering products division (with an installed capacity of 2,65,000 MTPA) is the major contributor to the revenue of the company (accounting for 84%-86% of gross sales in FY17-FY18). Under this division, the company has four manufacturing units out of which two are located at Jangalpur aggregating 1,05,000 MTPA (Howrah, West Bengal), one at Ulberia of 1,30,000 MTPA (Howrah, West Bengal) and one recently set up at Guwahati in March, 2017 aggregating 30,000 MTPA. In the PVC water pipes division, SL has an installed capacity of 51,000 MTPA.

SL has technological tie-up with two of the world's renowned companies – Sekisui of Japan for CPVC compound and Wavin Group of Netherlands for advanced plumbing solutions. The company is proposing to demerge its polymer division except the Palashbari unit in Assam (where the company is enjoying subsidy benefit) into a new entity 'Skipper Pipes Limited'.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	1661.93	2091.47
PBILDT	222.79	278.34
PAT	124.22	117.76
Overall gearing (times)	1.05	0.98
Interest coverage (times)	3.30	3.51

A: Audited

Status of non-cooperation with previous CRA: CRISIL has revised the rating of Skipper Limited to Issuer Not Co-operating based on best available information as SL did not provide the requisite information needed to conduct the rating exercise vide its Press Release dated December 28 2018.

Any other information: Not Available

Rating History (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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of 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 A; Negative
Term Loan-Long Term	-	-	March 2020	5.00	CARE A; Negative
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1120.00	CARE A; Negative / CARE A1
Non-fund-based - LT/ ST-Letter of credit	-	-	-	280.00	CARE A; Negative / CARE A1
Term Loan-Long Term	-	-	December 2021	14.99	CARE A; Negative
Term Loan-Long Term	-	-	June 2024	159.63	CARE A; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	425.00	CARE A; Negative	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)
2.	Term Loan-Long Term	LT	5.00	CARE A; Negative	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
3.	Term Loan-Long Term	LT	-	-	1)Withdrawn (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1120.00	CARE A; Negative / CARE A1	1)CARE A; Negative / CARE A1 (11-Mar-19)	1)CARE AA-; Stable / CARE A1+ (27-Mar-18) 2)CARE A+; Stable / CARE A1+ (14-Apr-17)	1)CARE A+ / CARE A1+ (27-Oct-16)	1)CARE A+ / CARE A1 (02-Sep-15)
5.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	280.00	CARE A; Negative / CARE A1	1)CARE A; Negative / CARE A1 (11-Mar-19)	1)CARE AA-; Stable / CARE A1+ (27-Mar-18) 2)CARE A+; Stable / CARE A1+ (14-Apr-17)	1)CARE A+ / CARE A1+ (27-Oct-16)	1)CARE A+ / CARE A1 (02-Sep-15)
6.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	1)CARE A+ (02-Sep-15)
7.	Term Loan-Long Term	LT	14.99	CARE A; Negative	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)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 (04-Mar-19)	1)CARE A1+ (27-Mar-18)	1)CARE A1+ (17-Mar-17) 2)CARE A1+ (27-Oct-16)	1)CARE A1 (23-Oct-15)
9.	Term Loan-Long Term	LT	159.63	CARE A; Negative	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)	-

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