Skipper Limited

December 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	-	-	**Reaffirmed and Withdrawn**
Long Term/Short Term Bank Facilities	-	-	**Reaffirmed and Withdrawn**
Total Bank Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed the ratings assigned to the bank facilities of Skipper Limited (SL) at CARE BBB+; Stable/CARE A2 (Triple B Plus, Outlook: Stable/A Two) and has simultaneously withdrawn it, with immediate effect.

The ratings withdrawal is at the request of the company and 'No Objection Certificate' received from the lenders that have extended the facilities rated by CARE.

The ratings continue to draw strength from the experienced promoters having satisfactory track record, strategic location of the plants, reputed clientele, empanelment with raw material suppliers, moderate order book position with presence in the export market, presence of backward integration and stable long term outlook for infrastructure sector in India.

The ratings, however, continue to be constrained by the exposure to volatility in input prices, moderate capital structure, working capital intensive operations and exposure to foreign exchange fluctuation.

The ratings also factor in the subdued financial performance of the company in FY20 (refers to the period April 1 to March 31) marked by decrease in total operating income and lower profitability level due to substantially lower revenue from engineering products segment. Further, the ratings take note of the losses incurred by the company in Q1FY21 due to impact of outbreak of Covid-19 on operations. However, the performance improved significantly during Q2FY21 with growth in sales and substantial increase in profitability over Q1FY21.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and satisfactory track record

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

The Board of SL comprises four members from the promoter's family, five independent directors and one whole time director with rich experience. Mr. Sajan Kumar Bansal is spearheading the overall business of SL with adequate support from his three sons, Mr. Sharan Bansal, Mr. Devesh Bansal and Mr. Siddharth Bansal.

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.

For PVC segment, SL had set up facilities across various geographical locations with a view to have a pan-India presence. The facilities were set up in Howrah, Ahmedabad, Sikandrabad, Guwahati and Hyderabad. However, during FY19 the company had shut and shifted its manufacturing facilities located at Sikandrabad, Ahmedabad and Hyderabad to its Uluberia plant. The above shifting was to consolidate operations and rationalize fixed costs. The company has also commissioned the Transmission Line Tower Testing and R&D Center in FY20.

Presence of backward integration

The cost of raw materials accounted for around 75% of cost of sales in the last three years (FY18-FY20). 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.

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, empanelment with various bodies/companies is 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.

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

Reputed clientele base

SL's clientele includes various reputed public as well as private sector players in the power transmission, construction and real estate sectors. The company has been receiving orders from various State Electricity Boards and transmission corporation companies.

In addition to the domestic client base, SL had ventured into global market and company has been receiving repetitive orders from countries like Nepal, Nigeria, Ukraine, etc. The company has export foot-prints in 30 countries across South America, Europe, Africa, Middle East, South East Asia and Australia.

Moderate order-book position

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 Power Grid Corporation of India Ltd (PGCIL).

The total order book remained stable at Rs.1,711 crore as on September 30, 2020 which constitutes of 31% export and 69% domestic orders. Of the total order book, the T&D division constituted 91%, telecom division constituted 6% and railways division constituted 3%.

In the T&D order book around 28% of orders were from PGCIL which also exposes SL to client concentration risk. The balance 36% was from state electricity boards/private parties and 36% were export orders. The company is increasing focus on export orders which carry higher margins.

Stable outlook for infrastructure sector in India; albeit short term disruptions on account of Covid-19

The long-term demand outlook for the domestic power transmission infrastructure is expected to be stable with continued thrust of the Indian government on infrastructure development. 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.

Further, the demand for telecom towers is also expected to grow with increase in telephone subscribers. Moreover, railway electrification has also opened opportunities as Indian Railways plans to electrify 90% of all broad gauge tracks under the Mission Electrification plan.

However, the sector is challenged by short term disruptions caused by impact of Covid-19. It is expected that the situation will start recovering from the second half and with the various government relief packages, the situation is likely to improve from the second half of the year.

Key Rating Weaknesses

Subdued performance of the company with lower revenue and profitability in FY20 & H1FY21

The total operating income of the company was substantially lower y-o-y in FY20 on the back of lower revenue from engineering products segment. However, despite lower revenue and profit level, the PBILDT margin improved from 9.96% in FY19 to 11.21% in FY20 on account of stable raw material prices and cost rationalization measures on overheads. The interest cost was lower during the year due to decrease in total debt with lower utilization of working capital borrowings. Despite forex loss of Rs.15.51 (notional in nature) and lower PBT, the PAT margin improved from 1.67% in FY19 to 2.98% in FY20 primarily on account of impact of lower tax burden in Q4FY20. The GCA was Rs.52.14 crore in FY20 vis-à-vis Rs.71.38 crore in FY19.

The performance of the company was affected during Q1FY21 by the on-going Covid-19 pandemic and resultant lockdowns. However, the performance improved substantially during Q2FY21. The company reported net profit of Rs.0.56 crore on total income of Rs.624.31 crore in H1FY21 as against net profit of Rs.9.63 crore on total income of Rs.651.81 crore in H1FY20.

Moderate capital structure with deterioration in debt coverage indicators

The total debt was relatively stable (Rs.640.84 crore as on March 31, 2020 as against Rs.655.44 crore as on March 31, 2019) and the overall gearing stood at 0.93x as on March 31, 2020 as compared to 1.01x as on March 31, 2019.

PBILDT interest coverage and Total Debt/GCA of the company stood at 1.83x and 12.29x respectively in FY20 as against 1.83x and 9.18x respectively in FY19. Interest coverage stood at 1.11x in H1FY21.

Exposure to foreign exchange fluctuations

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 FY20, SL incurred forex loss of Rs.15.51 crore vis-à-vis Rs.2.95 crore in FY19. 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 amounted to Rs.171.66 crore as on March 31, 2020 as against Rs.43 crore as on March 31, 2019.

In H1FY21, SL booked forex gain of Rs.18.41 crore as against forex gain of Rs.2.22 crore in H1FY20.

Increased working capital intensity of operations
The operating cycle of SL increased in FY20 with elongation in collection period and inventory period which was matched to an extent by the increase in creditor's period. The operating cycle elongated from 128 days in FY19 to 168 days in FY20. The collection period increased from 98 days in FY19 to 121 days in FY20, whereas, the inventory days increased from 120 days in FY19 to 152 days in FY20. The creditors period increased from 90 days in FY19 to 106 days in FY20.

Volatility in commodity prices
SL is affected by the price volatility of certain commodities, primarily, Steel, Zinc and PVC Resin which are the key raw materials of the company. The company has arrangement to pass through the increase/decrease in steel and Zinc price through price variance clause in majority of the contracts. However, the company is exposed to price volatility risk in respect to its fixed price contracts which comprised about 40% of the order book.
The company hedges the zinc and partial steel requirement and carries inventory of steel which cannot be hedged, while factoring in the inventory carrying cost in contract pricing.

Liquidity: Adequate
The liquidity position of the company is adequate with sufficient cash accruals as against repayment obligation. The average fund based working capital utilization of the company stood at around 78% during the last 12 months ended September'20. The company does not have any major capital expenditure plans in the near term. The company had availed moratorium from some of its lenders under the Covid-19 Regulatory Package of the Reserve Bank of India from March to August 2020.

Analytical Approach: Standalone

Applicable Criteria
Policy on Withdrawal of ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Outlook and Placing ratings under credit watch
Rating Methodology-Manufacturing Companies
Financial Ratios - Non Financial Sector
Liquidity Analysis of Non-financial Sector Entities

About the Company
SL, promoted by Kolkata-based Mr. Sajan Kumar Bansal, was incorporated in 1981. SL is engaged in manufacturing engineering products (transmission tower, telecom towers, poles, distribution poles, angles, fasteners and railway structures), PVC water pipes (UPVC pipes, CPVC pipes, SWR pipes, Agri Pipes) and providing infrastructure services (EPC).
The engineering products division (with an installed capacity of 3,00,000 MTPA) is the major contributor to the revenue of the company accounting for 82% of gross sales in FY20. 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 1,65,000 MTPA (Howrah, West Bengal) and one at Guwahati aggregating 30,000 MTPA. In the PVC water pipes division, SL has an installed capacity of 51,000 MTPA.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1,871.97	1,391.26
PBILDT	186.42	156.00
PAT	31.21	41.49
Overall gearing (times)	1.01	0.93
Interest coverage (times)	1.83	1.83

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

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	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Letter of credit	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB+; Stable (31-Dec-19) 2)CARE A; Negative (04-Apr-19)	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)
2.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Stable (31-Dec-19) 2)CARE A; Negative (04-Apr-19)	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)
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)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE BBB+; Stable / CARE A2 (31-Dec-19) 2)CARE A; Negative / CARE A1 (04-Apr-19)	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)
5.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	-	-	-	1)CARE BBB+; Stable / CARE A2 (31-Dec-19) 2)CARE A; Negative /	1)CARE A; Negative / CARE A1 (11-Mar-19)	1)CARE AA-; Stable / CARE A1+ (27-Mar-18) 2)CARE A+; Stable / CARE

						CARE A1 (04-Apr-19)		A1+ (14-Apr-17)
6.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)
7.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Stable (31-Dec-19) 2)CARE A; Negative (04-Apr-19)	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)
8.	Commercial Paper	ST	-	-	-	1)Withdrawn (27-Dec-19)	1)CARE A1 (04-Mar-19)	1)CARE A1+ (27-Mar-18)
9.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Stable (31-Dec-19) 2)CARE A; Negative (04-Apr-19)	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - LT/ ST-Letter of credit	Simple
4.	Term Loan-Long Term	Simple

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:
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