Skipper Limited (Revised)

December 31, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term Bank Facilities	573.91	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A; Negative (Single A; Outlook: Negative)**
Long Term/Short Term Bank Facilities	1,392.00	**CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Revised from CARE A; Negative/CARE A1 (Single A; Outlook: Negative/A One)**
Total	**1,965.91 (Rs. One Thousand Nine Hundred Sixty Five Crore and Ninety One Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Skipper Limited (SL) takes into account the significant deterioration in debt coverage indicators in FY19 (refers to the period April 1 to March 31) and H1FY20 on account of weak operational performance. The company reported significant decline in operating income in the aforesaid period with lower sales from both the engineering and polymer division. Further, the operating profitability was also substantially lower from both the divisions. The debt level continued to remain high inspite of lower sales and increased further as on September 30, 2019 with increased working capital intensity, impacting the coverage indicators.

The ratings continue to draw strength from its experienced promoters having satisfactory track record, strategic location of the plants, reputed clientele with majority of domestic orders backed by Power Grid Corporation of India Ltd (PGCIL; rated CARE AAA/CARE A1+), 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 with about 40% of the order book comprising fixed price contracts, moderate capital structure, working capital intensive operations resulting in high utilisation of working capital limits and exposure to foreign exchange fluctuation.

CARE also notes that the company has withdrawn the scheme of demerging its polymer division into a separate entity due to current business scenario.

Ratings Sensitivities

Positive Factors:

- Increase in pace of execution of present order book and garnering new orders leading to improvement in revenue and profitability
- Improvement in profitability with PBILDT and PAT margin of about 13% and about 7% respectively on sustained basis
- Efficient management of working capital requirement and improvement in operating cycle to about 90 days on sustained basis
- Maintaining capital structure and total debt/GCA going below 3.5x on a sustained basis.

Negative Factors:

- Decline in PBILDT margin below 10%.
- Increase in gearing above 1.20x and interest coverage going below 1.5x
- Total Debt/GCA remaining above 8.5x on a sustained basis.

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.

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

The Board of SL comprises four members from the promoter's family, four 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. The Engineering products capacity was enhanced by 35,000 MT during FY19 to 3,00,000 MT at Uluberia plant.

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 has 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 facility after shifting is operational.

Presence of backward integration

The cost of raw materials accounted for around 75% of cost of sales in the last three years (FY17-FY19). 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.

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 PGCIL.

The total order book remained stable at Rs.2,389 crore as on September 30, 2019 as compared to Rs.2,347 crore as on September 30, 2018 out of which domestic T&D accounted for 67%, exports for 20% and domestic-telecom & railways for 13%.

In the T&D order book around 47% of orders were from PGCIL which also exposes SL to client concentration risk. The balance 30% was from state electricity boards/private parties and 23% were export orders. However, the company is diversifying into relevant high-growth segments of telecom towers and railway electrification. Further, the company is increasing focus on export orders which carry higher margins.

Stable outlook for infrastructure sector in India

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.

Key Rating Weaknesses

Subdued operational performance of the company with lower revenue and profitability in FY19 & H1FY20

The total operating income of the company decreased by 10% from Rs.2,091.47 crore in FY18 to Rs.1,871.97 crore in FY19 on

the back of lower revenues from all the three segments. The revenues from engineering products division was lower due to slower project execution, slow off-take due to sites not being ready for want of approvals and lack of short term orders. Further, the company also slowed down supplies to the customers unwilling to provide secured payment terms. The revenue from polymer segment was impacted due to on-going structural changes by the company.
The operating profitability was also significantly lower with decline in PBILDT margin from 13.31% in FY18 to 9.96% in FY19. The decline in PBILDT margin was primarily due to high prices of key raw materials (steel and zinc) which could not be passed on in fixed price T&D contracts and under absorption of fixed overheads with lower utilisations. The finance cost increased substantially from Rs.79.34 crore in FY18 to Rs.102.10 crore in FY19 on account of higher working capital borrowings.
Accordingly, with significantly lower operating profitability, high finance cost and non-operating loss of Rs.3.47 crore as against non-operating income of Rs.27.29 crore (primarily forex gain and loss), the company reported significantly lower net profit of Rs.31.21 crore in FY19 vis-à-vis Rs.117.76 crore in FY18. Hence, the GCA was also lower at Rs.71.38 crore in FY19 as against Rs.155.12 crore in FY18.
The company reported net profit of Rs.9.63 crore on total operating income of Rs.651.81 crore in H1FY20 vis-à-vis net profit of Rs.6.99 crore on total operating income of Rs.1,002.66 crore in H1FY19. The revenue was significantly lower in engineering products segment. However, PBILDT margin improved from 10.40% in H1FY19 to 11.50% in H1FY20 primarily on account of stable raw material prices since March'19 and cost rationalization measures undertaken by the company.

Moderate capital structure with deterioration in debt coverage indicators
The total debt of the company increased marginally from Rs.622.61 crore as on March 31, 2018 to Rs.655.44 crore as on March 31, 2019. The overall gearing ratio of the company remained moderate at 1.01x as on March 31, 2019 as compared to 0.98x as on March 31, 2018.
However, the total debt outstanding increased to Rs.725.49 crore as on September 30, 2019 (though lower than total debt of Rs.789 crore as on September 30, 2018) due to increase in working capital borrowings inspite of decline in operating income. Accordingly the overall gearing also increased to 1.11x as on September 30, 2019.
The debt coverage indicators of the company also witnessed deterioration due to lower operational profits and cash accruals. Interest coverage and Total Debt to GCA of the company stood at 1.83x and 9.18x respectively in FY19 as against 3.51x and 4.01x respectively in FY18. The same stood at 1.68x and 12.60x respectively in H1FY20.

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 FY19, SL incurred forex loss of Rs.2.95 crore in FY19 vis-à-vis forex gain of Rs.27.62 crore in FY18. 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.43 crore as on March 31, 2019 as against Rs.119 crore as on March 31, 2018.
In H1FY20, SL earned forex gain of Rs.2.22 crore as against forex loss of Rs.20.53 crore in H1FY19.

Increased working capital intensity of operations
The operating cycle of SL increased in FY19 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 95 days in FY18 to 128 days in FY19. The collection period increased from 77 days in FY18 to 98 days in FY19, whereas, the inventory days increased from 96 days in FY18 to 120 days in FY19. The creditors period increased from 77 days in FY18 to 90 days in FY19.

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.
As articulated by the management, 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 company has already repaid ~Rs.25 crore till September 30, 2019. The company has repayments of ~Rs.20 crore in H2FY20 and GCA is expected to be sufficient to meet the same. Further, the company expects release of receivables including retention money of around Rs.75 crore by March'20 which is expected to support liquidity.
The average working capital utilization of the company stood at around 85% during the last 12 months ended October'19.

Analytical Approach: Standalone

Applicable Criteria
[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]

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 88% of gross sales in FY19. 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)	FY18 (A)	FY19 (A)
Total operating income	2,091.47	1,871.97
PBILDT	278.34	186.42
PAT	117.76	31.21
Overall gearing (times)	0.98	1.01
Interest coverage (times)	3.51	1.83

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	-	-	-	425.00	CARE BBB+; Stable
Term Loan-Long Term	-	-	March'20	2.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1120.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Letter of credit	-	-	-	272.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	December'21	8.74	CARE BBB+; Stable
Term Loan-Long Term	-	-	June'24	138.17	CARE BBB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	425.00	CARE BBB+; Stable	1)CARE A; Negative (04-Apr-19)	1)CARE A; Negative (11-Mar-19)	1)CARE AA-; Stable (27-Mar-18)	1)CARE A+ (27-Oct-16)

							2)CARE A+; Stable (14-Apr-17)	
2.	Term Loan-Long Term	LT	2.00	CARE BBB+; Stable	1)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)	1)CARE A+ (27-Oct-16)
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)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1120.00	CARE BBB+; Stable / CARE A2	1)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)	1)CARE A+ / CARE A1+ (27-Oct-16)
5.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	272.00	CARE BBB+; Stable / CARE A2	1)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)	1)CARE A+ / CARE A1+ (27-Oct-16)
6.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (27-Mar-18) 2)CARE A+; Stable (14-Apr-17)	1)CARE A+ (27-Oct-16)
7.	Term Loan-Long Term	LT	8.74	CARE BBB+; Stable	1)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)	1)CARE A+ (27-Oct-16)
8.	Commercial Paper	ST	-	-	1)Withdrawn (27-Dec-19)	1)CARE A1 (04-Mar-19)	1)CARE A1+ (27-Mar-18)	1)CARE A1+ (17-Mar-17) 2)CARE A1+ (27-Oct-16)
9.	Term Loan-Long Term	LT	138.17	CARE BBB+;	1)CARE A; Negative	1)CARE A; Negative	1)CARE AA-; Stable	1)CARE A+ (27-Oct-16)

				Stable	(04-Apr-19)	(11-Mar-19)	(27-Mar-18) 2)CARE A+; Stable (14-Apr-17)	

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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