AMSEC
Raising the bar

Asian Markets Securities Pvt. Ltd.

Institutional Research

Power Transmission	Initiating Coverage

Skipper Ltd

BUY

Spreading wings

CMP (Rs)	**143**
Target (Rs)	**170**

Nifty: 7982; Sensex: 26219

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg	SKIPPER IN
Shares O/s mn (FV Rs1)	102.3
Market cap (₹ bn)	14.6
52-week High/Low	200 / 75
3-m daily avg vol.	26233

Price Performance

(%)	1m	3m	12m
SKIPPER	(1.8)	(8.2)	91.3
NIFTY Index	(4.3)	(3.5)	(2.3)
Sensex Index	(4.7)	(4.5)	(3.7)

Shareholding Pattern

(%)	Jun15	Mar15	Dec14
Promoter	72.4	72.4	72.4
FII	0.0	0.0	0.0
DII	0.0	0.0	0.0
Others	27.6	27.6	27.6

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Skipper Limited (Skipper); one of the top three transmission line tower (TLT) manufacturing companies in the country, is well poised to enter into high growth phase in both business segments. On one hand, Skipper, after restructuring its engineering division is all set to capture the benefits arising from strong macro demand in TLT both domestic as well as globally, on the other hand its strategy to become a all India player in PVC pipes and fittings is panning well with the new capacities coming on-stream at a low cost. We believe there is further scope of margin expansion in engineering owing to restructuring and higher exports; and higher capacity utilization in PVC segments that would lead to achieve the higher profit growth in coming years. We estimate a 54% CAGR growth in PAT during FY15-17E. Given the strong order book of Rs22 bn, high and improving EBITDA margins, expansion in PVC segment, and excellent macro environment in power T&D space; we remain positive on the business. We initiate with a BUY rating and a TP of Rs170, based on 12x PER of FY17E EPS.

Engineering Segment EBIT to expand 330bp during FY15-17: Skipper registered a 270bp yoy improvement in EBIT in FY15 primarily owing to reduction in revenues from GI Pipes division. As a part of restructuring, GI pipe segment revenue will reduce further in FY16 leading to a better margins. Apart from above, the current order book stands at over Rs22.4bn (2.1x TLT revenue of FY15) and export constitutes for 51% of total order book. Further ~Rs20 bn worth of tenders submitted. We estimate the change in revenue mix with higher exports along with benefit from restructuring would result in 330bp expansion in segment EBIT during FY15-17E to 15.5% in FY17.

4 x expansions in PVC products capacity: To be a pan India company, Skipper has already enhanced capacity from 10, 000 MTPA in FY15 to 22, 500 MTPA; and is further taking it up to 40, 000 MTPA by FY16E. Skipper is also prudently going for asset light expansion to contain its capex and enhance returns at low risk. Management is confidant of making higher inroads in new geographies and to expand capacities further in FY17. However given the new geographies we are conservatively taking only 40K MTPA capacities with low utilization of 45% in FY16E and 65% in FY17E along with a 100bp decline in EBIT margin. We estimate with the expansions, the PVC segment turnover to register a CAGR of 57% during FY15-17E.

Robust sales and margin growth with strong financial: With the strong order book in TLT and huge capacity addition in PVC, we expect revenue CAGR of 22% during FY15-17E despite discontinuation of GI Pipes revenues. On the back of better utilization and restructuring, the blended EBITDAM is expected to improve by 230bp during FY15-17E to 15.9%. We estimate strong revenue growth along with robust EBITDAM would lead to a 54% PAT CAGR during FY15-17E. However the management guidance suggests much steeper growth in both revenue and PAT in next three years.

Positive Outlook with rich Valuations: We estimate the revenue and PAT CAGR of 22% and 54% during FY15-17E. Return ratios to improve in FY17E with ROCE at 32.2% and ROE at 33.4%. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, increasing export orders, significant improvement in EBITDAM due to restructuring of operations, benefits of backwards integration, 4x expansion in PVC segment, strong return ratios, robust growth, improving EBITDAM and young management team; we believe SKIPPER has a strong business prospects. We initiate with a BUY rating and a TP of Rs170 based on 12x PER of FY17E EPS. At CMP the stock is trading at 14.7x FY16E and 10.1x FY17E.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Sales	9,003	10,415	12,702	15,210	18,979
yoy (%)	*21.5*	*15.7*	*22.0*	*19.7*	*24.8*
EBITDA	853	1,102	1,726	2,331	3,008
yoy (%)	*36.9*	*29.3*	*56.6*	*35.1*	*29.1*
Adjusted PAT	187	269	612	998	1,450
yoy (%)	*89.1*	*43.8*	*231.4*	*63.0*	*45.3*
Equity	97	102	102	102	102
EPS	1.9	2.6	6.0	9.8	14.2

Exhibit 2: Key Ratios

Y/E Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDAM (%)	9.5	10.6	13.6	15.3	15.9
NPM (%)	2.1	2.6	4.8	6.6	7.6
PER (x)	74.5	54.4	16.4	14.7	10.1
P/BV (x)	6.8	6.3	4.8	3.9	3.0
EV/Sales (x)	2.0	1.8	1.4	1.2	1.0
EV/ EBITDA (x)	21.2	17.0	10.4	7.8	6.1
RoACE (%)	13.0	14.5	21.7	27.9	32.2
RoANW (%)	10.1	12.3	33.3	29.2	33.4

Source: Company, AMSEC Research

Investment Rationale

Engineering Division:

Engineering segment consists of transmission line towers (TLT), angels, monopoles, GI pipes etc. It also includes the Steel angel manufacturing facility as part of backward integration process.

Industry prospects: Huge capex on T&D lined up

Given the current thrust on the improvement of T&D infrastructure in the country along with significant new transmission infrastructure development projects planned by the power ministry along with PGCIL as well as various states. The projects such as HDVC, dedicated green corridor for renewable energy, improving the evacuation facility to existing and upcoming generation capacity; would lead to sizable demand for TLT.

PGCIL alone has plans to tender more than Rs440 bn worth of new orders in FY16 apart from special projects such as green corridor (~₹150 bn), TCBC tenders (~Rs280 bn), North East states (~Rs130bn). Considering the special projects PGCIL is targeting ~Rs960 bn worth of T&D tendering in FY16 itself.

Exhibit 3: PGCIL tenders to double at ~440 bn in FY16E

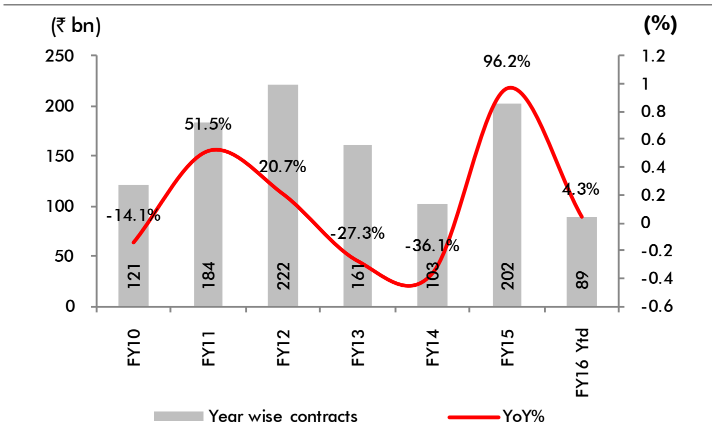
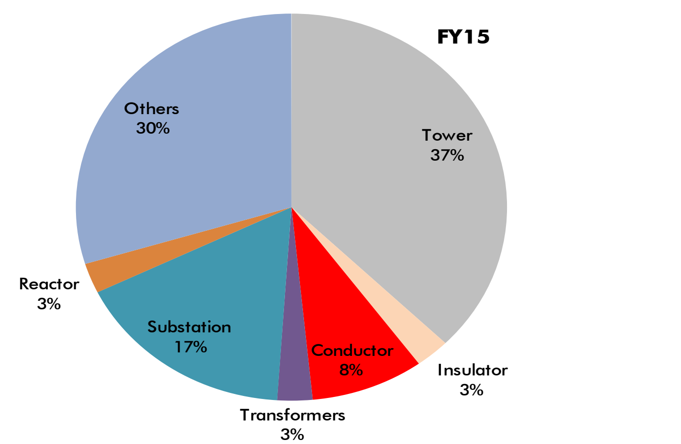


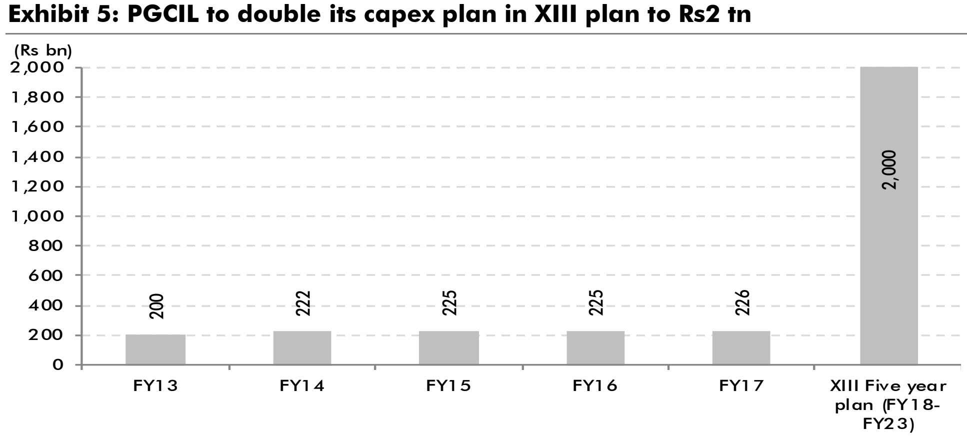
Exhibit 4: TLT to dominate in overall T&D tendering



Source: PGCIL, AMSEC Research

We believe apart from PGCIL now the SEBs capex in T&D space would also start seeing an uptick. Apart from above schemes like rural electrification, increasing street light networks, improving public infrastructure such as stadiums, airports, bus terminus etc would also create demand for poles (transmission, street light, mono, high mast). The improving spending scenario for T&D infrastructure auger well for TLT and poles demand and in turn is positive for Skipper Limited.

Exhibit 5: PGCIL to double its capex plan in XIII plan to Rs2 tn



Source: PGCIL, AMSEC Research

Third largest capacity of TLT towers: Skipper has a total capacity of 1, 75,000 TPA (up from 1, 51,000 TPA in FY15) of tower manufacturing capacity. It is the third largest capacity post KEC & Kalpataru in the domestic space. It has three manufacturing plants in the state of West Bengal and has enough room to expand the capacity till 3, 00,000 TPA by Brownfield expansion at minimum capex. . Given the huge capex plans in TLT infrastructure in the country and increasing export orders in order book, the demand for towers are expected to grow at rapid pace and Skipper is well placed to capture the opportunity. **All the three manufacturing plants are approved by PGCIL.**

Exhibit 6: TLT capacity at 1,75,000 TPA for FY16E

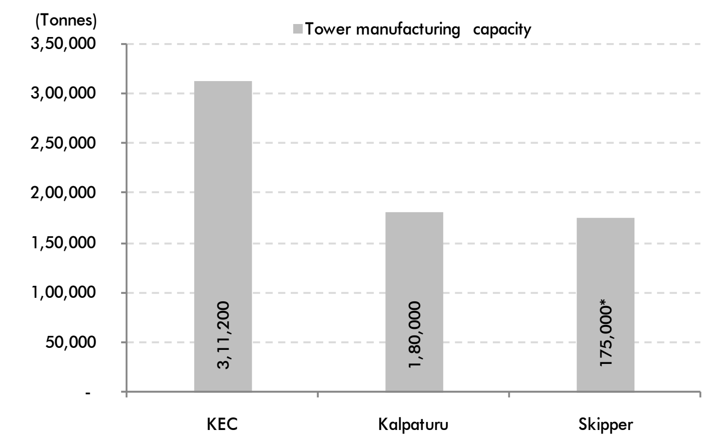
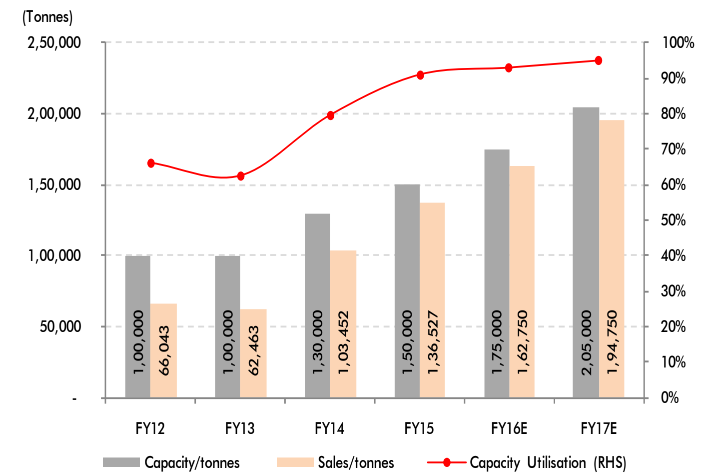


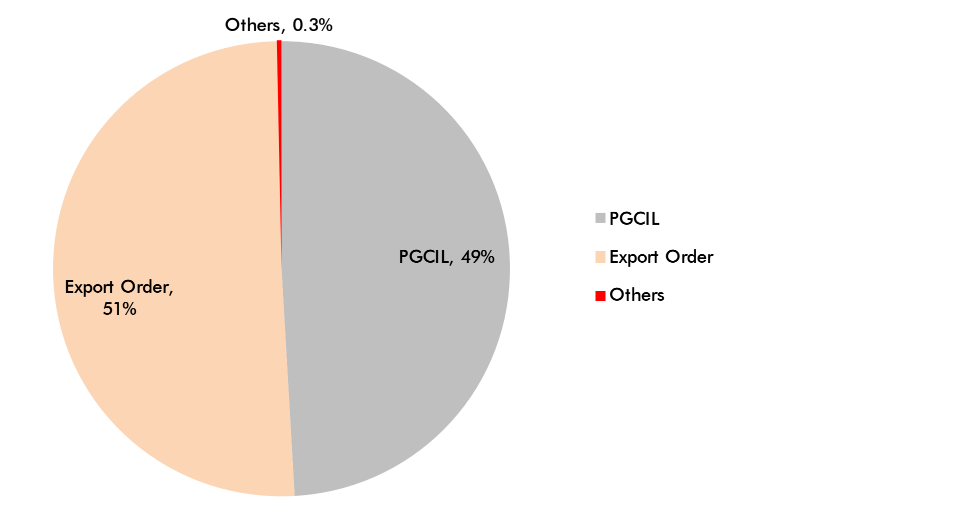
Exhibit 7: TLT sales volume CAGR of 19% during FY15-17E



*Source: Company, AMSEC Research; *to be 2, 05,000 TPA in FY17E by brown filed expansion*

Orderbook of more than Rs22.4 bn (2.1x FY15 TLT revenue): The current orderbook stands at healthy Rs22.4 bn, providing a revenue visibility of over 2 years. The orderbook is well diversified between domestic as well as international orders. On one hand PGCIL is the largest domestic customer for Skipper with over 49% of total order book coming from PGCIL directly or indirectly and on the other hand it has more than Rs11bn (51% of order book) worth of export orders. Further the company has more than Rs20 bn worth or tenders submitted and are expected to open in 2H FY16. Given the growth prospects of tendering from PGCIL, international markets as well as SEBs; Skipper is expected to enjoy healthy orderbook to ensure high growth and revenue visibility in the near future.

Exhibit 8: PGCIL & Exports constitutes 49% & 51% of total order book



Source: Company, AMSEC Research

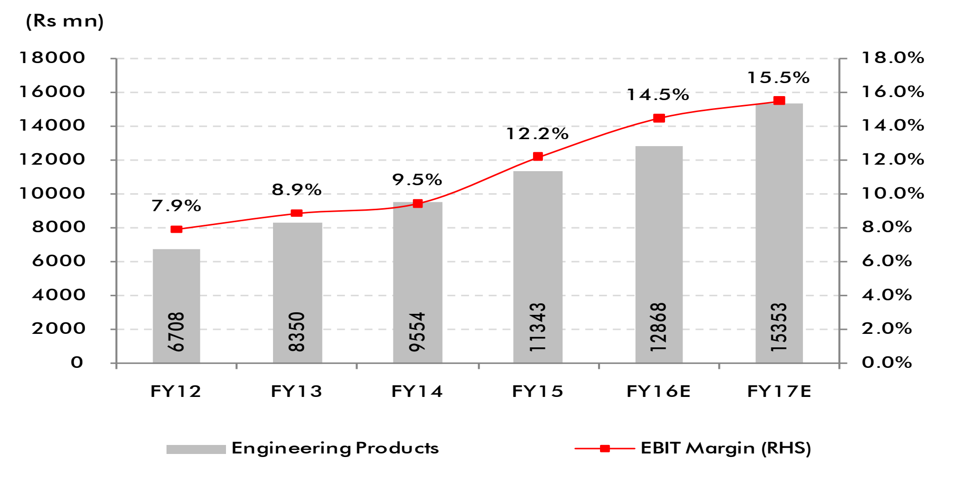
Exhibit 9: Details of order book as on 31st August 2015

ORDER POSITION as on 31.08.15				
SL. NO.	**Project Name & Description of the Project**	**Contract value (Rs mn)**	**Orders Executed (Rs mn)**	**Un executed orders in Hand (Rs mn)**
1	Dulhasti-Kishenpur	540	525	15
2	Angul – Jharsuguda	2556	1950	606
3	Bhadla (Jaisalmer) to Bikaner- RRVPNL	1115	1064	52
4	Dharamjaygarh – Jabalpur	508	504	4
5	Betul-Khandwa	857	643	214
6	Nagapattinam-Salem - FB01	1172	801	371
7	Tower Package-P224- TW02 for 400 kV D/C Rajarhat - Purnea	1258	733	525
8	Allahabad-Kanpur	540	316	224
9	Panchkula Patiala	506	401	105
10	Jabalpur-Orai-TS02	1666	253	1414
11	Jabalpur-Orai-TS03	1439	201	1238
12	Satna -Gwalior LILO -TS05	1521	-	1521
13	Orai-Aligarh (Part-IV) & LILO of Kanpur-Jhatikala TS08	1517	1	1516
14	Orai-Aligarh (Part-IV) & LILO of Kanpur-Jhatikala TS09	1464	-	1464
15	Tower Supply –II Contract for 400 kV Teesta III HEP –Kishenganj	22	-	22
16	Tower Package-TW04-765 kV D/C Banaskantha – Chittorgarh	872	-	872
17	Tower Package-TW06 for 765 kV D/C Banaskantha – Chittorgarh	888	-	888
	Total Domestic orders	**18441**	**7391**	**11049**
23	Nepal- Angelique	1106	833	273
24	ZAMBIA TL Project	285	232	54
25	Mantaro Montalvo	3154	934	2220
26	Chile 1	3611	528	3083
27	Chile 2	375	-	375
28	Nigeria Lot-9	469	75	394
29	Nigeria Lot-5	232	50	182
30	Peru	167	-	167
31	CO-SITU COLUMBIAN	2615	-	2615
32	CO-CECO COLUMBIAN	1067	-	1067
33	CO-CHUR COLUMBIAN	325	-	325
34	CO-COLI COLUMBIAN	112	-	112
35	CO-GECE COLUMBIAN	54	-	54
36	Ukraine	393	-	393
	Total Exports orders	**13963**	**2652**	**11311**
	Grand Total	**32403**	**10043**	**22360**

Source: Company, AMSEC Research

Restructuring engineering division to enhance operating efficiently: The engineering segment was consisting of TLT, Angles, Poles and GI Pipes as revenue segments. The increasing demand of TLT towers lead to angles getting consumed internally. As the GI pipes with total revenue of ~₹1.2 bn in FY15 (Rs2.8bn in FY14) was not efficient and thus impacting the overall blended margins of the division; the company decided to stop selling GI pipes and run the manufacturing facility on job work for large players like Tata Steel. Skipper has seen a 270bp improvement in EBIT margin mainly due to reduced sale in GI pipes. We expect the EBIT margin to further grow 330bp during FY15-17 to 15.5% owing to combined benefit of higher exports and NIL revenues from GI pipes.

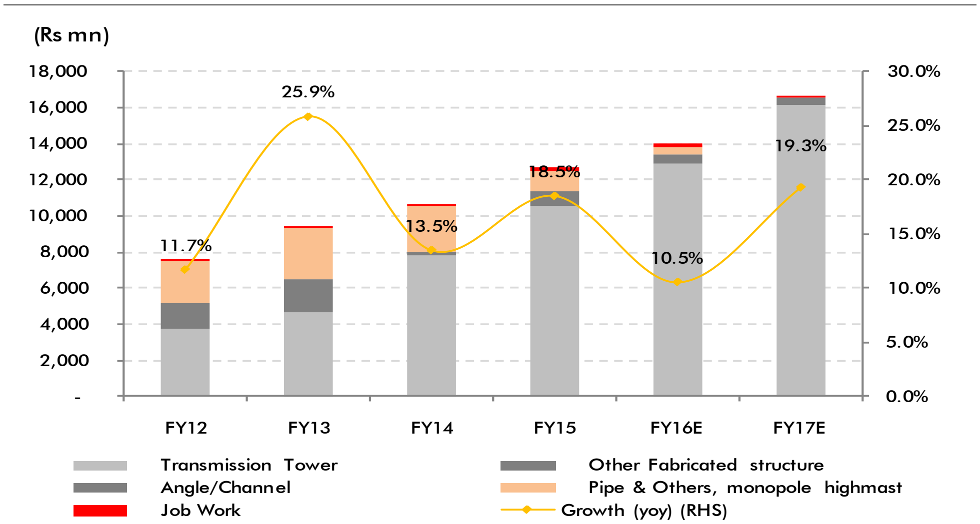
Exhibit 10: EBIT margin to improve by 330bp during FY15-17E



Source: Company, AMSEC Research

Backward Integration provides huge cost advantage: The Company operates via its three manufacturing plants in West Bengal (Uluberia, Jangalpur I and Janglepur II). It manufactures towers, angles, poles, and other structures in these plants. It also have done backward integration through rolling mills, which gives it better control over the key raw material and is also horizontally integrated with manufacturing of fasteners and accessories for towers. Having the backward and horizontal integration, scale of manufacturing and the RM availability within the state provides huge cost advantage to Skipper as compared with other competitors in the country. As per the company management, Skipper enjoys ~300-400 of cost saving by way of lower freight costs and economies of scale. Despite the GI Pipe revenue going off, we expect Skipper's engineering segment to report revenue CAGR of 16.3%.

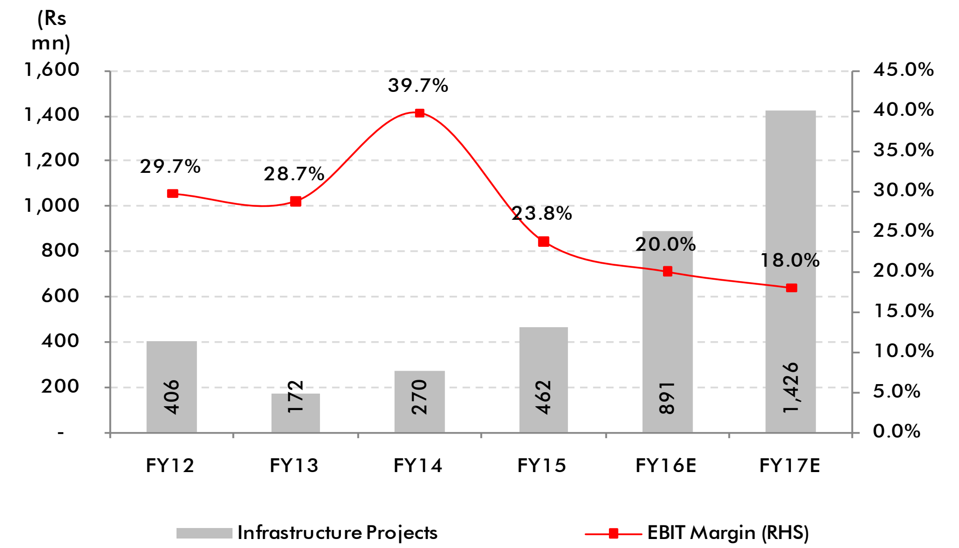
Exhibit 11: TLT to lead growth helped by Higher exports despite lower GI Pipe



Source: Company, AMSEC Research

Entered into EPC segment: Given the current industry scenario; the company has entered into EPC contracts for transmission towers. It currently has around Rs2bn worth of order book and reported revenue of Rs462 mn from this segment. It is a small segment at present and the management indicated they do not intend to be aggressive in this segment till the TLT product segment is performing well. We expect EPC segment to continue to remain small with revenue of Rs1.4 bn in FY17E. We expect Infrastructure segment to report revenue CAGR of 76% during FY15-17E on a low base.

Exhibit 12: Infrastructure / EPC segment CAGR at 76% during FY15-17E



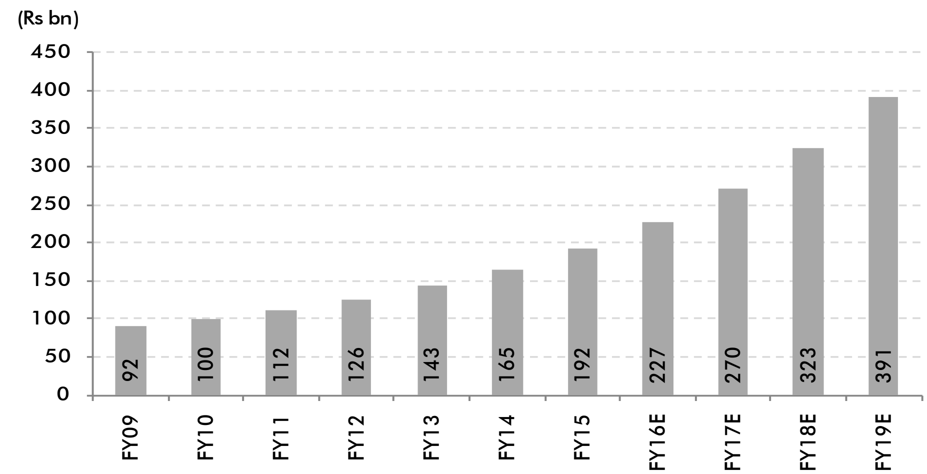
Source: Company, AMSEC Research

PVC Division:

PVC/CPVC Pipes a growing opportunity

The government has announced massive investment plans in the water transmission and distribution space for the next few years. Government has announced large projects such as National Rural Drinking Water programme (₹11tn project), Swach Bharat and river interlinking. Lack of access to irrigation currently also pose as a sustainable demand opportunity for next 5-10 years. The Government's thrust on water, irrigation, river management, improving sanitation, sewerage and urbanization the PVC pipes and fittings markets is expected to grow at much higher pace then its historical 8-10% CAGR rate and reach Rs391 bn in FY19.

Exhibit 13: India PVC Pipes and Fittings Market Future revenue Projections

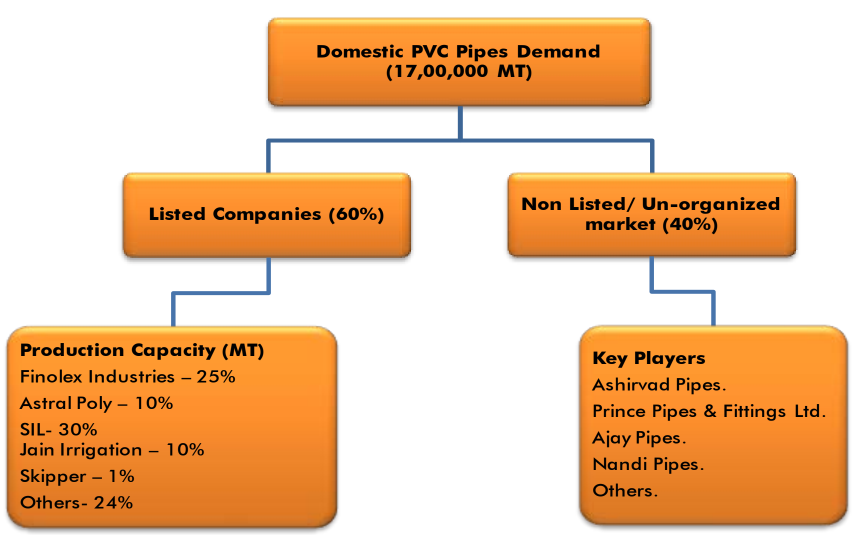


Source: Industry data. Company, AMSEC Research

60% of the industry is catered by organized players:

The industry is dominated by top 4 players controlling 75% of organized market. Skipper has outperformed industry growth of 8% with more than 100% growth annually (also due to benefit of low base effect). Skipper so far being a regional player in Eastern India commands meager 1% market share in India. However given expansion plans to be pan India player, quality products it seems feasible that Skipper would be able to garner small but some market share from the leaders in the newer markets. Given the small size and huge opportunity we believe skipper is well poised to capture the opportunity and outperform industry growth.

Exhibit 14: India PVC Pipes domestic demand pegged at 1.7 mn MT



Source: Industry data. Company, AMSEC Research. Note Data as on FY15 end.

Exhibit 15: Skipper to show high growth on low base

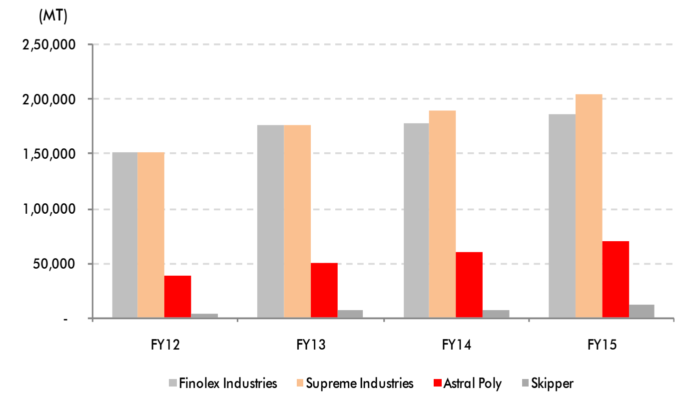
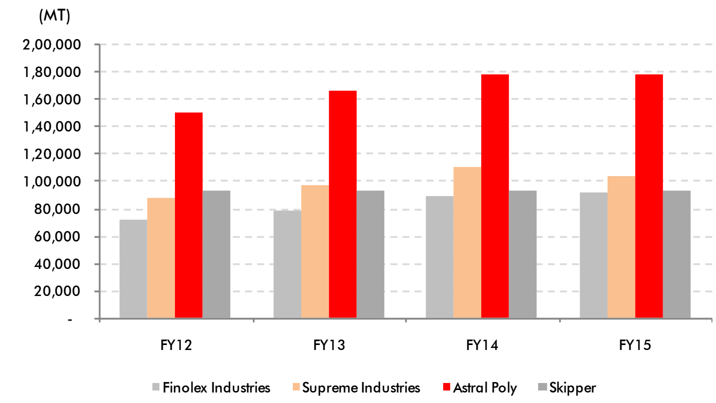


Exhibit 16: Quality at par with leaders ensures healthy realisation



Source: Company, AMSEC Research

Multifold capacity expansion to be a pan India player

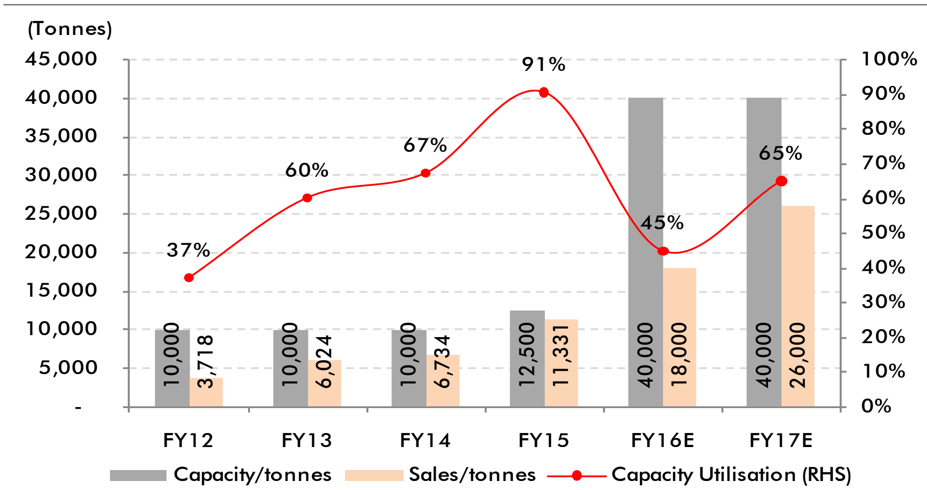
Skipper entered in Water Transmission (pipe) business in 2009. Despite being a relatively new entrant, it has garnered ~10% market share of the PVC pipes business in eastern India. A strong product portfolio of pipes including newly launched CPVC pipes makes Skipper as one the major and a well established player in both the rural agricultural as well as urban plumbing segments.

Till Dec 2014, with a capacity of 10,000 TPA; it is present in three eastern states (West Bengal, Bihar and Odisha) and some part of the north-east. Looking at the success in the Eastern India and huge opportunity in the segment; the management has firmed up its plans to be a pan India player.

Capacity up from 10,000 TPA (FY15) to 22, 500k TPA now, to be at 40, 000 TPA by FY16E

To achieve its plans to be a pan India player, The company has added 2,500 TPA in its existing unit by debottlenecking. Skipper has also commission a plant in Ahmedabad in April 2015 with initial capacity of 10,000 TPA, to cater to the western states of Gujarat and Maharashtra. The current capacity of Skipper stands at 22,500 TPA. Further 17,500 TPA of capacities to be added by end of FY16 by adding three new locations (Secunderabad, Guwahati, and Hyderabad) to cater to Northern, Eastern and Southern region. Subsequently Skipper has plans to take its total capacity to 1, 00,000 TPA by FY18. We have factored in total capacity of 40, 000 TPA, operating at capacity utilization of 45% in FY16E and 65% in FY17E in our estimates.

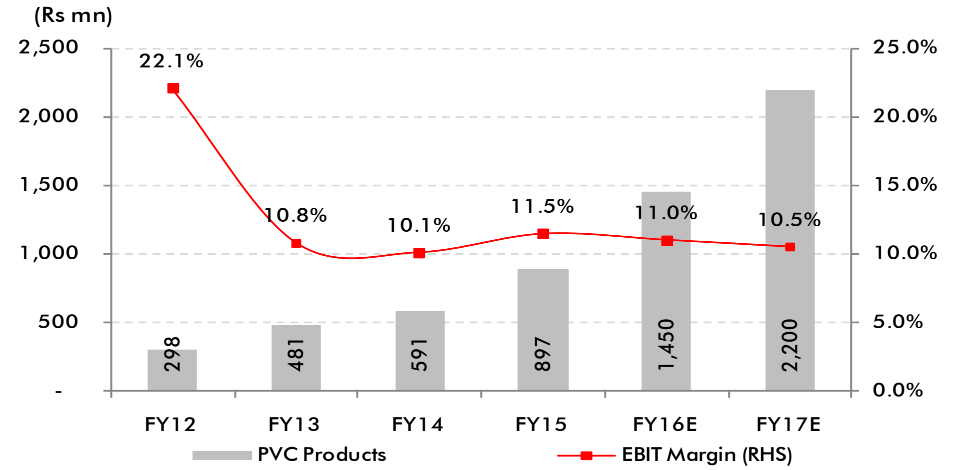
Exhibit 16: 65% capacity utilisation assumed in FY17E



Source: Company, AMSEC Research

Given the smaller size and a new entrant in much geography, any fraction of market share gain would reflect high growth for company's revenue on low base. We expect PVC segment revenue CAGR of 56.6% during FY15-17E, backed by four fold increase in capacity and geographical expansion. The management has very aggressive growth plans for this segment and aims to reach Rs10 bn gross turnover by FY18 (Rs 1bn in FY15) with a total capacity of 1, 00,000 TPA (10, 000 TPA in CY14). However we have factored in only 40,000 TPA of capacity in FY16-17 with conservative utilization levels and have factored in an EBIT decline of 100 bp during FY15-17 to 10.5% in FY17E, owing to higher fixed cost and dealer discounts in new markets.

Exhibit 17: PVC segment sales CAGR at 57% during FY15-17E



Source: Company, AMSEC Research

Asset light business model to enhance returns

Skipper has embark on massive expansion plans but considering the relatively newer business segment, entering into new geographies with an aggressive business plans; the management has decided to go with the lease model to reduce capex and risk associated at the same time enhance the returns on investments. The company is taking the land and civil structures on lease basis where as spending capital only of plant & Machinery. As per the management this strategy reduces the capex by more than 50% and also makes the expansion faster where the civil structures are already in place. Company is also going for facility outsourcing model by acquiring the production of existing plant, wherein the plant will be owned by a third party but production will be undertaken by Skipper to maintain the quality and control.

Exhibit 18: PVC segment capacity at 40000 TPA by FY16E

Location	Capacity TPA	Ownership Status	Operating Status	Utilisation (%) FY16	FY17
Kolkata	12,500	Fully owned	Operational	100	100
Ahmedabad	10,000	Own light assets	Since Apr'15	45	50
Sikandarabad	6,000	Capacity bought	From Oct'15	10	50
Guwahati	4,500	Capacity bought	From Oct'15	10	45
Hyderabad	7,000	Capacity bought	From Dec'15	-	50
Total	**40,000**				

Source: Company, AMSEC Research

Strong financial outlook

Revenue to grow at a CAGR of 22% and PAT CAGR of 54% during FY15-17E

We expect Skipper to report blended revenue CAGR of 22% during FY15-17E on the back of 16.3% CAGR in Engineering and 56.6% CAGR in PVC divisions during the same period. However we expect Net Profit to report higher CAGR of 54% during FY15-17E owing to margin improvement. We believe the numbers will further improve post FY17E, once the PVC utilization picks up.

Exhibit 19: We expect sales to grow at a CAGR of 22% over FY15-17E

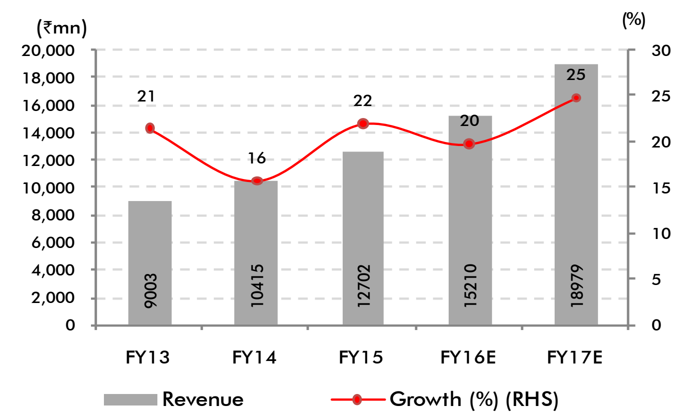


Exhibit 20: Engineering products at 81% of net revenue in FY17E

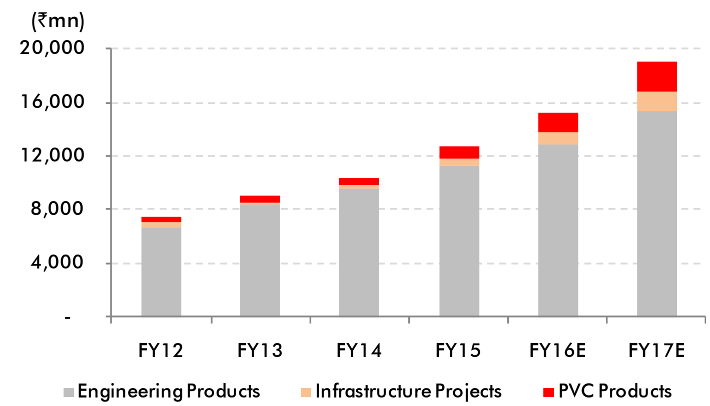


Exhibit 21: EBITDAM to improve by 230bp during FY15-17E

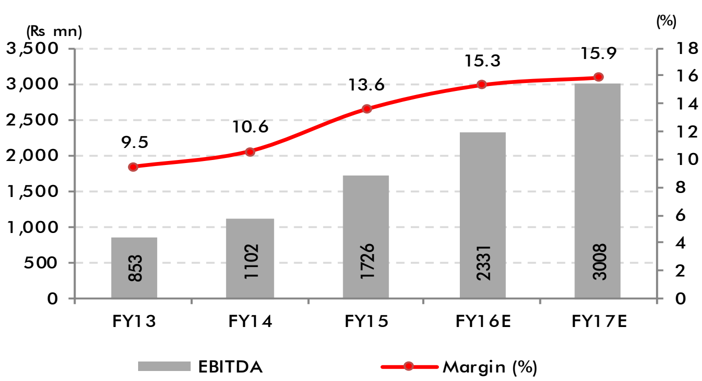


Exhibit 22: Net profit to grow at CAGR of 54% during FY14-17E

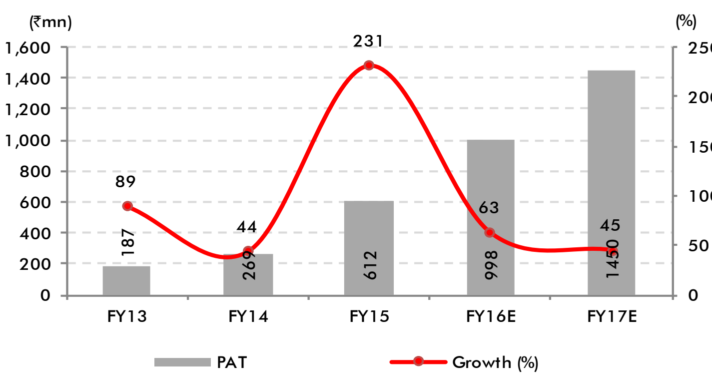


Exhibit 23: Return ratios healthy at more than 30%

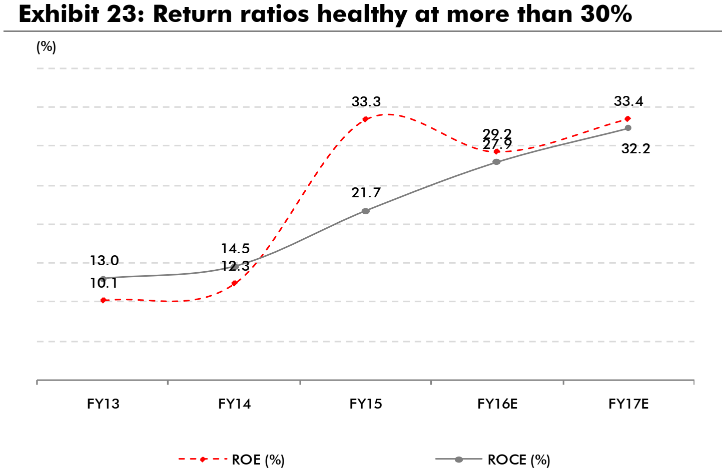
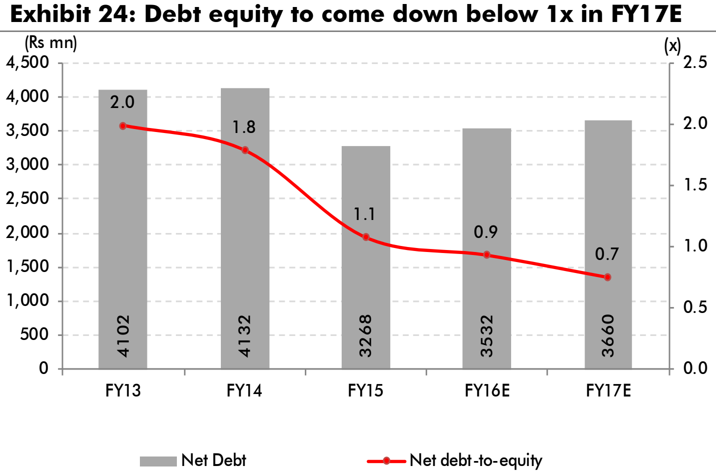


Exhibit 24: Debt equity to come down below 1x in FY17E



Source: Company, AMSEC Research

Exhibit 25: Gross block-to-turnover of 3.9x in FY17E

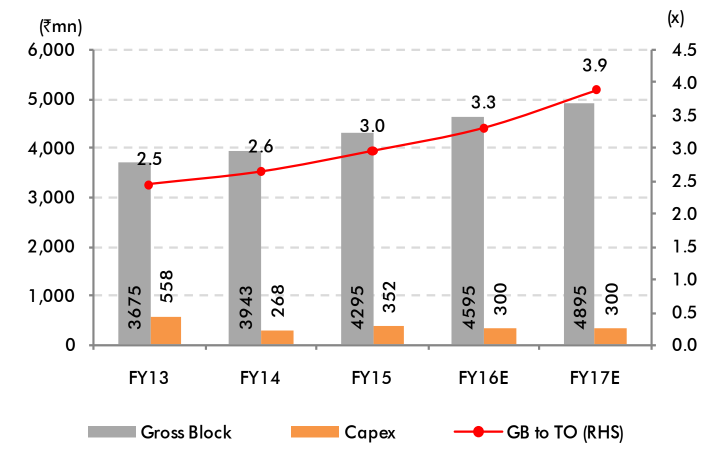
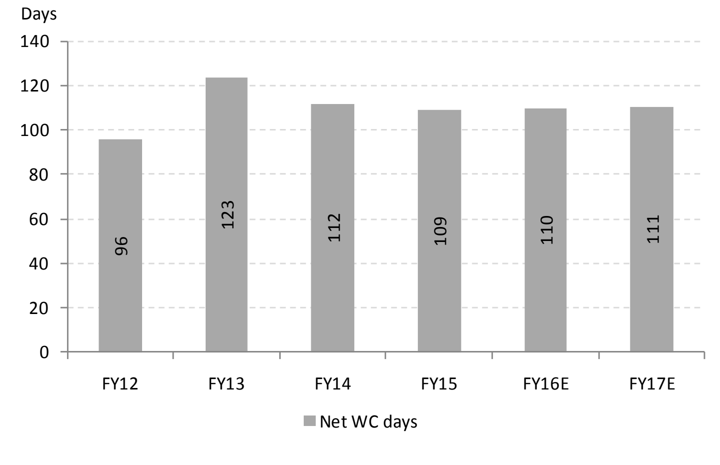


Exhibit 26: Net WC to be at 111days in FY17E



Source: Company, AMSEC Research

Exhibit 27: Segment details

Particulars	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Turnover (Rsm)						
Engineering Products	6,708	8,350	9,554	11,343	12,868	15,353
Infrastructure Projects	406	172	270	462	891	1,426
PVC Products	298	481	591	897	1,450	2,200
Total Turnover	**7,412**	**9,003**	**10,415**	**12,702**	**15,210**	**18,979**
Segment Results (Rsm)						
Engineering Products	532	741	904	1,383	1,866	2,380
Infrastructure Projects	121	50	107	110	178	257
PVC Products	66	52	60	103	160	231
Total Segment Results	**719**	**842**	**1,071**	**1,596**	**2,204**	**2,867**
EBIT Margin						
Engineering Products	7.9%	8.9%	9.5%	12.2%	14.5%	15.5%
Infrastructure Projects	29.7%	28.7%	39.7%	23.8%	20.0%	18.0%
PVC Products	22.1%	10.8%	10.1%	11.5%	11.0%	10.5%
Total	**9.7%**	**9.4%**	**10.3%**	**12.6%**	**14.5%**	**15.1%**

Source: Company, AMSEC Research

Valuations – New kid on the block

At the current market price of Rs143, Skipper is trading at 14.7x FY16E EPS and 10.1x FY17E EPS, respectively.

We believe the stock is poised to enter in a high growth trajectory on the back of positive macroeconomic demand scenario in both TLT as well as PVC segment, Huge capacity addition in PVC segment, expanding its geographical reach with pan India presence, restructuring the engineering division by closing GI Pipes leading to improved efficiency and significant margin improvement, higher exports, improving debt equity situation, higher return ratios, asset light business model, strong clientele (PGCIL), location advantage in manufacturing, integrated tower manufacturing model, high EBITDAM and strong financials.

The company is lead by the young and dynamic management team and the team has set high targets for them for future expansion and growth. Though the targets look aggressive but it is achievable and the strong performance in past few quarters strengthens the thought that the targets can be achieved. In the event of achieving the planned targets the company can be the candidate of witness steep growth trajectory in next 3-5 year horizon. However given the dynamic business model, entry into new geography we have been conservative in our estimates and would revisit the same from time to time.

Though due to the recent listing we do not have a historical price performance data for the company; however we believe given the product segment and business profile the company can be valued conservatively at 12x PER FY17 EPS, which is at par with its TLT peers. We initiate coverage on the stock with a BUY rating and a Target Price of Rs170 based at 12x PER of FY17E EPS.

Exhibit 28: Peer comparison table

Company	Rating	Mcap (Rs mn)	CMP (Rs)	TP (Rs)	OPM (%)				ROE (%)				PER (x)			
					FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
KEC International	HOLD	38321	149	140	6.2	6.0	7.3	7.9	5.7	12.8	13.1	18.6	57.4	23.8	20.9	12.8
Kalpataru power trans	BUY	36943	241	288	9.5	9.6	10.0	10.2	7.7	8.2	9.8	10.8	25.2	22.3	17.5	14.6
Skipper Ltd	BUY	15286	143	170	10.6	13.6	15.3	15.9	12.3	33.3	29.2	33.4	54.4	16.4	14.7	10.1
Techno electric & Engg co	BUY	29687	520	640	27.2	26.2	22.6	22.3	12.3	12.9	16.7	23.5	33.9	28.3	20.3	15.0
Finolex Industries	NR	34157	278	NR	13.9	10.9	15.0	17.9	22.5	10.6	23.0	28.3	20.1	35.8	15.6	12.9
Astral Poly Technik	NR	52235	442	NR	12.8	13.2	15.0	14.7	28.4	22.1	23.8	25.5	63.0	51.7	33.6	23.7
Average					**13.4**	**13.3**	**14.2**	**14.8**	**14.8**	**16.7**	**19.3**	**23.3**	**42.3**	**29.7**	**20.4**	**14.9**

Source: Company, Bloomberg, AMSEC Research

Key Risks

Delay in order inflow or execution: Roughly 90% of revenue is from engineering division, currently the company has healthy order book both from PGCIL as well as international orders. The international orders account for 51% of total order. Skipper received large orders at one go from international markets and is relatively new with low export orders in the past. Export order inflow is one of the most important factor in our growth estimates. Any delay in new orders win both in domestic or export market may impact our estimates negatively.

Lack of historical performance: The Company has an evolving business model, where they have restructured their engineering product offerings; they have entered into PVC business in just 5 years ago. The EPC division is also less than five year old. Thus the company has limited historical evidence of its performance in the current business model. From capital market perspective too it just got listed in BSE less than 12-15 months ago.

Delay in capacity expansion in PVC and TLT: Skipper is planning capacity expansion of 10 x FY15 capacities in next 4 year. Where in 4x expansion is expected to come on-stream in FY16E. Further in TLT division the company is expected to add smaller capacities every year by brownfield expansion. Any delay in such expansion may impact the company's strategy and thus may impact our estimates.

Becoming pan India player with Large growth target in PVC: The management is planning to achieve Rs10 bn turnover in PVC by FY18E (₹1bn FY15), with a capacity of 1, 00,000 TPA (10, 000 TPA FY15). Currently the company is having presence only in Eastern states of the country, now they have plans to be pan India presence. Each region has different business and market dynamics. For Skipper apart from East all other are new territory where they do not have any practical experience as of now. This may pose a big challenge for the management.

Other: Apart from the above mentioned key risk factors, the other factors which may impact company's performance and our earnings estimates are: Currency fluctuation in case of export orders in TLT, RM price volatility in both steel for TLT and crude linked RM for PVC/CPVC, increasing competition in both T&D and Water management space etc.

Exhibit 29: Quarterly performance

Skipper Ltd: 1Q FY16 quarterly results

Y/E March(Rs mn)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	yoy(%)	qoq (%)	FY14	FY15	yoy (%)
Net Sales	1,832	2,649	3,227	4,995	2,344	*28.0*	*(53.1)*	10,404	12,702	*22.1*
Other Operational Incom	0	-	1	5	22			11	6	
Total Sales	**1,832**	**2,649**	**3,227**	**4,999**	**2,367**	*29.2*	*(52.7)*	**10,415**	**12,708**	*22.0*
Stock Adjustment	(535)	(71)	(276)	1,128	(704)	*31.8*	*(162.5)*	(269)	246	*(191.5)*
Cons. of Raw Materials	1,700	1,853	2,508	2,489	2,164	*27.3*	*(13.1)*	7,870	8,551	*8.7*
Employee Cost	71	89	93	87	102	*42.8*	*17.0*	274	341	*24.5*
Other Expenditure	321	481	427	608	451	*40.4*	*(25.8)*	1,439	1,838	*27.8*
Total Expenditure	1,558	2,352	2,753	4,312	2,013	*29.2*	*(53.3)*	9,313	10,976	*17.9*
EBITDA	**274**	**296**	**474**	**687**	**353**	**29.0**	**(48.5)**	**1,102**	**1,731**	**57.1**
Add: Other Income	8	1	7	1	6	*(22.8)*	*656.4*	21	17	*(22.1)*
Interest	127	129	173	154	147	*16.2*	*(4.1)*	605	583	*(3.8)*
Depreciation	54	51	52	63	59	*8.2*	*(7.2)*	151	220	*45.9*
Excp. Item	-	420	-	-	-	-	-	-	420	-
Profit Before Tax	**101**	**538**	**256**	**471**	**153**	**52.3**	**(67.4)**	**367**	**1,366**	**272.0**
Provision for Taxation	35	185	86	168	53	*51.5*	*(68.3)*	98	474	*383.4*
PAT	**66**	**353**	**171**	**303**	**100**	**52.8**	**(66.9)**	**269**	**892**	**231.4**
Adj Net Profit	**66**	**77**	**171**	**303**	**100**	**52.8**	**(66.9)**	**269**	**617**	**129.4**
Equity Capital (FV Rs1)	102	102	102	102	102			102	102	
Basic EPS (₹)	**0.6**	**3.4**	**1.7**	**3.0**	**1.0**			**2.6**	**8.7**	
Adjusted EPS (In Rs)	**0.6**	**0.8**	**1.7**	**3.0**	**1.0**			**2.6**	**6.0**	
EBITDA (%)	14.9	11.2	14.7	13.7	14.9	*(1bp)*	*120bp*	10.6	13.6	*304bp*
PAT (%)	3.6	2.9	5.3	6.1	4.2	*66bp*	*(183bp)*	2.6	4.9	*227bp*
Tax / PBT (%)	34.9	34.4	33.4	35.7	34.7			26.7	34.7	
Raw Mat. / Net Sales (%)	63.6	67.3	69.2	72.4	61.7			73.0	69.2	

Source: Company, AMSEC Research

Exhibit 30: Quarterly Segment Performance

Y/E March (Rs mn)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	yoy (%)	qoq (%)	FY14	FY15	yoy%
Segment Revenue										
Engineering Products	1589	2446	2899	4413	1951	*22.8*	*(55.8)*	9554	11768	*23.2*
PVC products	184	93	187	434	333	*81.1*	*(23.2)*	591	897	*51.8*
Infrastructure Projects	59	110	141	152	83	*40.0*	*(45.7)*	270	462	*71.2*
Total Segment Revenue	**1832**	**2649**	**3227**	**4999**	**2367**	**29.2**	**-52.7**	**10415**	**13128**	**26**
Segment Results										
Engineering Products	217	233	390	970	295	*36.2*	*(69.6)*	904	1809	*100.2*
PVC products	11	17	19	55	40	*256.0*	*(27.3)*	60	103	*72.3*
Infrastructure Projects	16	28	53	13	19	*17.7*	*54.5*	107	110	*2.6*
Total	**244**	**279**	**462**	**1037**	**355**	**45.2**	**-65.8**	**1071**	**2022**	**89**
EBIT Margin										
Engineering Products	13.6	9.5	13.5	22.0	15.1	*149bp*	*(685bp)*	9.5	15.4	*591bp*
PVC products	6.1	18.8	10.0	12.8	12.1	*594bp*	*(67bp)*	10.1	11.5	*137bp*
Infrastructure Projects	27.8	25.8	37.4	8.2	23.4	*(442bp)*	*1514bp*	39.7	23.8	*(1591bp)*
Total EBIT Margin	**13.3**	**10.5**	**14.3**	**20.8**	**15.0**	**165bp**	**(577bp)**	**10.3**	**15.4**	**512bp**

Source: Company, AMSEC Research; Note: Not adjusted for forex gain of 420mn in FY15

About the Company

Company Snapshot:

Skipper Limited, a flagship of the SK Bansal group and has over 350 dealers across Eastern India, making it one of the most recognized brands in the region. It is headquartered in Kolkata, India and has workforce of 1250 employees.

Skipper Limited is engaged in manufacturing of transmission towers, telecom towers, PVC, GI, and SWR pipes and fittings, tubular poles, and scaffolding systems and Hot rolled products primarily in India.

The company also offers a range of plumbing pipes and fittings for use in various areas, such as agricultural, paper, dye, and paint industries; and manufactures octagonal and swaged tubular poles, scaffolding systems, and solar structures for use in power distribution, construction, solar and borewell sectors. In addition, it offers high mast lighting, telecom monopoles and fasteners consisting of bolt, nuts, and washers. Further, the company undertakes horizontal directional drilling trench-less horizontal drilling for the installation of optic fiber cable networks, oil and gas pipelines, cable networks, and others, as well as power transmission line engineering procurement construction contracts in infrastructure sector.

Skipper has been honored recently for being the "FASTEST GROWING TRANSMISSION TOWER MANUFACTURING COMPANY" at the Export Import forum, International Trade Awards.

Manufacturing Plants:

The company has 4 manufacturing units (2 at Jangalpur, Howrah, a major one at Uluberia, Howrah and a PVC plant in Ahmedabad) with a finished product capacity of 0.5mn MT per annum. It is expanding the PVC capacity from 22,500TPA to 40,000TPA by FY16 end.

Exhibit 31: Installed Capacities (MT per annum)

		Jangalpur, Howrah			
Installed Capacities	**Uluberia, Howrah**	**Unit 1**	**Unit 2**	**Ahmadabad**	**Total**
Transmission Towers (incl. Poles)	70,000	69,000	36,000		1,75,000
Hot Rolled Angles	2,15,000				2,15,000
Plastic Tubes & Fittings	12,500			10,000	22,500
Total	**297,500**	**69,000**	**36,000**	**10,000**	**412,500**

Note: not including the ERW tubes capacity as it is used for job work

Major Clients:

- PGCIL (49% of order book)
- Isolux
- Rajasthan Rajya Vidyut Prasaran Nigam Limited
- Telangana Transco
- Megha Engineering & Infrastructures Limited

Export Destinations:

- South America – Peru, Columbai, Chile
- Europe – UK, Germany
- Africa – Kenya, Egypt, Ghana, Nigeria, Zambia, Sierra Leone, Guinea, South Africa
- Middle East – Jordan, Saudi Arabia, UAE
- South and South east Asia – Nepal, Bangladesh, Srilanka, Indonesia, Australia.

Exhibit 32: Key Management personnel

1	Mr. Sajan Kumar Bansal	Managing Director and Promoter group
2	Mr Sharan Bansal	Director
3	Mr. Devesh Bansal	Director
4	Mr. Siddharth Bansal	Director
5	Mr. Amit Kiran Deb	IAS (Retd) Chairman, Independent Director

Mr. Sajan Kumar Bansal, Managing Director: Mr. Sajan Kumar Bansal, B.Com., Managing Director is driving force behind the company's exponential growth since the beginning of the new millennium. Under his visionary leadership, the company has grown from a single unit, single product manufacturer to multi unit, multi product manufacturing ranging from Steel to Plastics.

Mr Sharan Bansal, Director: Mr. Sharan Bansal, M S engineering is heading the Tower manufacturing and EPC business of the company. He's taken the company to a leadership position in this industry.

Mr. Devesh Bansal, Director: Mr. Devesh Bansal, B.Com, Master in International Business, is is heading the Tubes and Tubular products divisions of the company. He is also responsible for the group's upstream expansions.

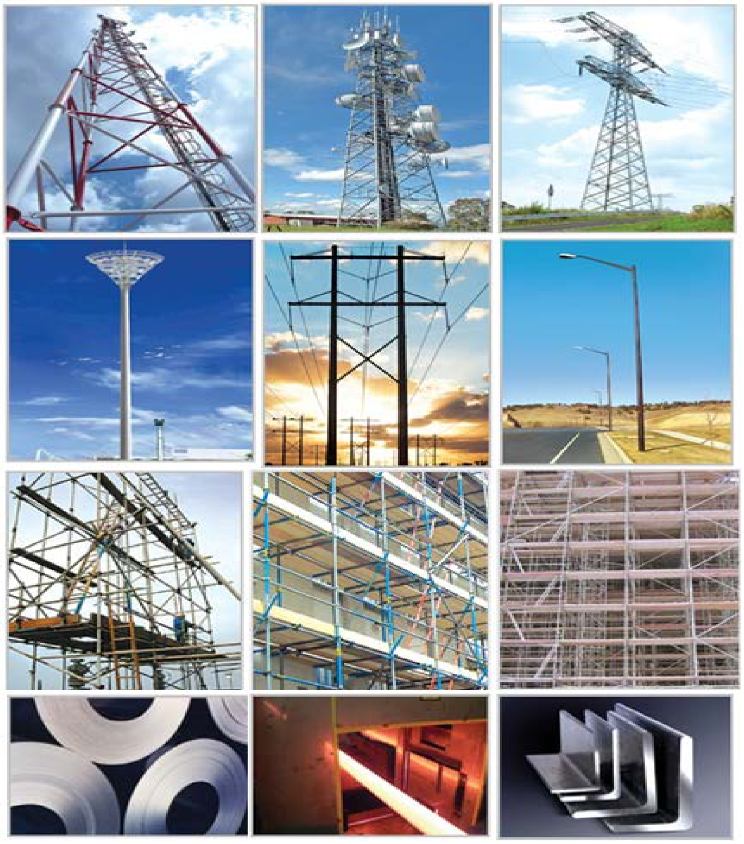
Mr. Siddharth Bansal, Director: Mr. Siddharth Bansal, Director. BSc in Management, Entrepreneurship and Msc Management, International Business, is heading the company's first diversification into non steel products, Siddharth Bansal is responsible for the PVC pipe manufacturing divisions.

Mr. Amit Kiran Deb, IAS (Retd) Chairman, Independent Director: Mr. Amit Kiran Deb, serves as the Chairman of Skipper Limited and has been its Independent Director since January 28, 2010 and helds several responsible and important portfolios in the WB State Government such as Home, C&I (Cultural & Information), Tourism and Industry before finally retiring as Chief secretary and Tourism secretary, he has had close interactions with prominent industrial houses in West Bengal as well as in India and has profound knowledge and experience with different types of industries.

Key Milestones

- Company incorporated as "Skipper Investments Ltd" with manufacturing Hamilton Poles **-1981.**
- Company name change to "Skipper Steels Ltd" and diversified into manufacturing Telecom Towers & Masts **- 1990.**
- Set up LPG Cylinder unit **- 2001.**
- Set up First Tube mill **- 2003.**
- Set up First Galvanizing plant **- 2005.**
- Crossed Rs 1bn in revenue. Got Power Grid approval for Tower unit and first order itself for 400KV towers (the highest voltage level at that time). Entered into manufacturing tie-up with Ramboll, Denmark –the world's largest Tower design company - 2006.
- Entered into value addition of Steel Tubes as Scaffoldings **- 2007.**
- Started process of Conversion of Tower production process from Manual to Automated CNC **- 2008.**
- Got India's first order for 800KV transmission towers from PGCIL. Commissioned Uluberia unit with first PVC unit and India's first double side Tube GI Plant **- 2009.**
- Entered into Backward integration of the two major product verticals Tubes and Towers by way of Strip mill and Angle mill respectively. Crossed Rs 5bn in revenue **- 2010.**
- Company name changed to "Skipper Ltd" to reflect broader and diversified product verticals **- 2011.**
- Crossed 10bn in Revenue **- 2013.**
- The Company got listed on BSE in July 2014 with a market capitalization over Rs 15bn (end March 2015**) - 2014.**
- Crossed order book position Rs 24.5bn, recommended a dividend of 130%. The Company was awarded as the 'Fastest growing Transmission Tower Manufacturing Company' by CNBC TV-18 - 2015. New PVC captive support unit got operational at Ahmedabad in April 2015. The Company got listed on NSE in May 2015 with a market capitalization over Rs 17.9bn. Crossed revenue of Rs 14bn **- 2015.**

Product Portfolio:



Telecom & Transmission Towers: Skipper provides a high quality cost-effective solution for Telecom operators and Infrastructure providers. This towers use 25-30% lesser steel than conventional towers of similar loading capacity and have become the preferred solutions for Telecom customers.

Poles: Skipper's Steel Poles are used extensively for Power Distribution & Lighting projects in India (RGGVY and APDRP) as well as Gulf & African countries

- **Tubular Swaged Poles.**
- **High Mast Poles.**
- **Octagonal Poles.**
-

Scaffoldings: Scaffoldings is manufactured in adherence to ASTM, BS/EN and BIS norms. Our in-house tube production enhances cost competitiveness and facilitates ready tube availability.

Hot Rolled Products: Skipper Limited offers one of the finest and most varied product ranges among hot rolled products in Eastern India. It's hot rolled products are also used in-house for the production of steel towers, pipes and tubes.

Mild Steel Tubes & Galvanized (GI) Pipes: Galvanized and Black tubes: Comes with 15 to 200 mm in 16 sizes in various thickness and grades.

PVC Pipes:

UPVC Pipes and Fittings: High pressure UPVC solvent weld plumbing systems are used for easy and economical solution for transport and distribution of potable water.

CPVC Pipes and Fittings: Used for a long lasting and cost-effective solution for hot and cold water in plumbing and potable water applications.

SWR Pipes and Fittings: Highly recommended for use in office, hotels, residential and commercial complexes. It is also used for drainage system at public places such as stations, airports, hospital etc.

Borewell Pipes: This pipes are use to carry extra load at extra depth for better filtration. This product range includes **Casing Medium Pipes, Casing Shallow Pipes and Column Pipes**

Financials (Consolidated)

Profit & Loss Account

Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales	9,003	10,415	12,702	15,210	18,979
Other operating income	-	-	-	-	-
Consumption of materials	6,829	7,600	8,797	10,343	12,906
Staff Expenses	195	274	341	411	512
Other operating expenses	1,128	1,439	1,838	2,126	2,553
Total Expenditure	8,151	9,313	10,976	12,879	15,971
EBITDA	**853**	**1,102**	**1,726**	**2,331**	**3,008**
Depreciation	126	151	220	241	259
Operating profit	**727**	**951**	**1,506**	**2,090**	**2,749**
Other income	14	21	17	20	20
EBIT	**741**	**973**	**1,523**	**2,110**	**2,769**
Interest	464	605	583	609	637
Exceptional items	-	-	(426)	-	-
Profit before tax	**278**	**367**	**1,366**	**1,501**	**2,132**
Tax	90	98	474	503	682
Minority interest	-	-	-	-	-
Reported net profit	**187**	**269**	**892**	**998**	**1,450**
Adjusted net profit	**187**	**269**	**612**	**998**	**1,450**
Share O/s mn	97	102	102	102	102
EPS Rs (adjusted)	1.9	2.6	6.0	9.8	14.2

Cash Flow Statement

Particulars	FY13	FY14	FY15	FY16E	FY17E
PBT	278	367	1,366	1,501	2,132
Non-cash adjustments	111	130	203	221	239
Changes in working capital	(1,015)	(129)	189	(949)	(1,178)
Interest Paid	464	605	583	609	637
Tax Paid & Other Adj	208	(91)	(451)	(503)	(682)
Cashflow from operatior	**45**	**883**	**1,889**	**879**	**1,148**
Capital exp. & Advances	(574)	(315)	(304)	(315)	(300)
Change in investments	0	-	-	-	-
Other investing cashflow	14	21	17	20	20
Cashflow from investing	**(560)**	**(294)**	**(287)**	**(295)**	**(280)**
Issue of equity	27	5	(0)	-	-
Issue/repay debt	1,005	165	(566)	100	100
Interest Paid	(464)	(605)	(583)	(609)	(637)
Dividends paid	(11)	(18)	(156)	(239)	(359)
Other financing cashflow	-	-	-	-	-
Cashflow from financing	**557**	**(454)**	**(1,305)**	**(748)**	**(896)**
Change in cash & cash e	**43**	**135**	**298**	**(165)**	**(27)**
Opening cash & cash eq	**86**	**128**	**263**	**561**	**396**
Closing cash & cash eq	**128**	**263**	**561**	**396**	**369**
Free cash flow to firm	(528)	567	1,586	564	848

Balance Sheet

Particulars	FY13	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS :					
Share Capital	97	102	102	102	102
Reserves	1,963	2,209	2,936	3,695	4,786
Minority Interest	-	-	-	-	-
Total Shareholders Funds	**2,061**	**2,312**	**3,039**	**3,797**	**4,888**
Non-Current Liabilities	**2,183**	**2,534**	**1,972**	**1,972**	**1,972**
Long term borrowings	1,986	2,307	1,707	1,707	1,707
Deferred tax liability	181	218	265	265	265
Other long term liabilities	16	10	-	-	-
Long-term provisions	-	-	-	-	-
Current Liabilities	**3,625**	**3,969**	**5,627**	**5,989**	**6,873**
Short term borrowings	1,990	1,755	1,724	1,824	1,924
Trade payables	1,162	1,563	2,415	2,709	3,380
Other current liabilities	461	626	1,277	1,414	1,518
Short term provisions	11	25	210	42	52
Total Equity & Liabilities	**7,869**	**8,815**	**10,637**	**11,757**	**13,733**
APPLICATION OF FUNDS :					
Non Current Assets	**3,307**	**3,489**	**3,578**	**3,652**	**3,693**
Gross block (Total)	3,675	3,943	4,295	4,595	4,895
Less : accumulated depreciation	413	558	782	1,024	1,283
Net block (Total)	3,262	3,385	3,513	3,571	3,612
Capital work in progress	36	83	35	50	50
Noncurrent investment	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Long term loans and advances	-	-	-	-	-
Other non-current assets	9	21	31	31	31
Current Assets	**4,562**	**5,326**	**7,059**	**8,105**	**10,040**
Current investment	-	-	-	-	-
Inventories	2,378	2,290	2,282	2,792	3,536
Sundry debtors	1,549	2,318	3,758	4,375	5,512
Cash and bank	128	263	561	396	369
Short loans and advances	507	455	458	542	624
Others current assets	-	-	-	-	-
Total Assets	**7,869**	**8,815**	**10,637**	**11,757**	**13,733**
	-	-	-	-	-
Net Working Capital*	3,046	3,193	3,785	4,573	5,750
Total Gross Debt*	4,230	4,395	3,829	3,929	4,029
Total Net Debt	4,102	4,132	3,268	3,532	3,660
Capital Employed*	6,472	6,924	7,132	7,990	9,181

Ratios

Particulars	FY13	FY14	FY15	FY16E	FY17E
PER SHARE					
EPS Rs (adjusted)	1.9	2.6	6.0	9.8	14.2
CEPS Rs	3.2	4.1	8.1	12.1	16.7
Book Value Rs	21.1	22.6	29.7	37.1	47.8
VALUATION					
EV / Net Sales	2.0	1.8	1.4	1.2	1.0
EV / EBITDA	21.2	17.0	10.4	7.8	6.1
P / E Ratio	74.5	54.4	16.4	14.7	10.1
P / BV Ratio	6.8	6.3	4.8	3.9	3.0
GROWTH YOY%					
Sales Growth	21.5	15.7	22.0	19.7	24.8
EBITDA Growth	36.9	29.3	56.6	35.1	29.1
Net Profit Growth	89.1	43.8	231.4	63.0	45.3
Gross Fixed Asset Growth	17.9	7.3	8.9	7.0	6.5
PROFITABILITY (%)					
Gross Profit/ Net sales	18.2	19.7	22.4	30.1	30.1
EBITDA / Net Sales	9.5	10.6	13.6	15.3	15.9
EBIT / Net sales	8.1	9.1	11.9	13.7	14.5
NPM / Total income	2.1	2.6	4.8	6.6	7.6
Raw Material/Net Sales	75.8	73.0	69.3	68.0	68.0
Int/PBIT	63.8	63.6	38.7	29.1	23.2
RONW	10.1	12.3	33.3	29.2	33.4
ROCE	13.0	14.5	21.7	27.9	32.2
ROIC	8.8	10.8	13.1	18.9	22.3
Tax / PBT	32.6	26.7	50.4	33.5	32.0
TURNOVER					
Net Woking Cycle	124	112	87	95	99
Debtors Velocity (Days)	63	81	108	105	106
Inventory (Days)	106	90	76	79	81
Creditors Velocity (Days)	62	75	100	96	96
Current Ratio	3.3	2.8	2.6	2.6	2.5
Quick Ratio	1.6	1.6	1.8	1.7	1.7
LIQUIDITY					
Gross Asset Ratio	2.7	2.7	3.1	3.4	4.0
Total Asset Ratio	1.2	1.2	1.3	1.4	1.5
Net Debt-Equity Ratio	2.0	1.8	1.1	0.9	0.7
Interest Coverage (x)	1.6	1.6	2.6	3.5	4.3
PAYOUT					
Payout %	6	7	25	24	25
Dividend %	10	15	130	200	300
Yield %	0.1	0.1	0.9	1.4	0.9

Source: Company, AMSEC Research

Recommendation rationale

Buy: Potential upside of	>+15% (absolute returns)
Accumulate:	>+5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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