

Skipper Ltd.

INR 158

Transmission capex play; poised to grow

BUY

Skipper Ltd. reported its Q1FY17 results with Net revenue of INR 2,844 Mn, growth of 20.18% YoY basis. The EBITDA stood at INR 407 Mn with margin of 14.3% compared to 14.9% YoY and 13.9% on QoQ basis, a decrease of 61bps YoY. The PAT remained at INR 122.3 Mn against YoY INR 100.3 Mn, with margins at 4.3% as against 4.2% YoY, an increase of 6bps YoY. PAT growth is 22% after adjusting for forex gain of 14.9 mn. Reported PAT increased 36.89%.

New Manufacturing unit in North East: The Company's board has approved setting up a new Manufacturing unit in Guwahati, Assam with a capacity of 30,000 MT of Engineering Products and 7,000 MT of CPVC and UPVC Fittings. This unit is to be commissioned by the end of the current financial year (March'17). The total investment outlay for the project is estimated at INR 700 mn. The Key rationales behind the project are as follows:

- To tap the growing demands of T&D products in the North East region on account of large upcoming PGCIL & BOO Projects;
- To manufacture high value CPVC & UPVC fittings; to feed all existing pipe units across the country;
- To take advantage of all the available Tax exemptions, Incentives and other associated benefits extended by Centre and State for setting up manufacturing units in the region;
- To improve on margin deliverance; The plant margin profile will be a couple of percentage points higher than existing average commanded margins due to focus on manufacturing higher value added products and its associated tax benefits and incentives.

Robust orderbook provide revenue visibility: The company's engineering products order book position as on 31st March 2016 stands at INR 24,290 Mn and is well diversified between domestic and international orders. Also, the recently received Power Grid approval for the Distribution Pole will enable to tap the large potential Pole requirements for upcoming Power Grid DMS projects in the North Eastern region of the country. The sector has started witnessing uptick in both ordering and execution and the company expects growth to remain strong and gain further pace with increased participation opportunities from Power Grid, SEBs, TBCB projects and Renewable projects.

Expansion of International Market: Skipper enjoys a strong presence in the overseas T&D market and is increasingly focusing on developing new market geographies to further expand its international reach. During the quarter, the company gained entry into the newer market geographies of Asia & Africa by bagging new orders in the countries of Kenya, Cameroon, Congo, Ghana & Malaysia.

Polymer Products Capacity Expansion: Skipper a regional power house in the PVC pipe business for eastern India continues to expand its national foot print and its upward growth trajectory in the organized PVC piping market. During the quarter, company ventured into Southern India market by setting up its fifth PVC manufacturing unit in Hyderabad of 6,000 MTPA under its asset light model to increase its total manufacturing size to 41,000 MTPA. The manufacturing unit having a capacity to produce 6,000 MTPA of both Plumbing and Agriculture pipes will target the growing demands of the entire southern region states like Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala. The company also has plans to take the total capacity to 100,000 TPA by FY 2019, addressing the need of the Country for superior quality of PVC pipes and products.

Valuation & Outlook: Robust order book providing revenue visibility in T&D business; multifold expansion in PVC business on a pan India level providing scalable growth opportunities reinforces our belief in sustainable superior earnings performance ahead (EPS CAGR FY16-18E - 42.03%). **We maintain a BUY and TP of INR 248 based on 16x P/E of FY18E EPS and on 9.23x EV/EBITDA FY18E basis, implying 57% upside from current levels. At CMP of INR 158, the company trades at P/E of 10.41x its FY18E EPS of INR15.18.**

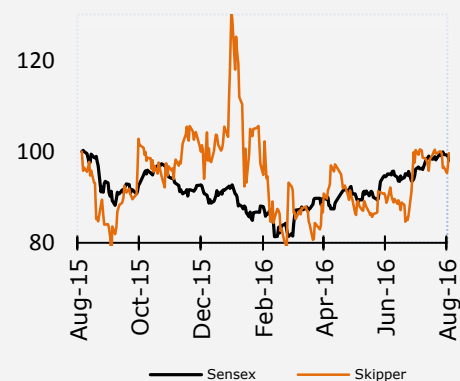
Target Price (INR): INR 248

Potential Upside : 57%

Market Data	
Shares outs (Mn)	102.32
Equity Cap (Mn)	102.3
Mkt Cap (INR Mn)	16432
52 Wk H/L (INR)	220/116
Avg Vol(3M avg K)	145.47
Face Value (INR)	1
Bloomberg Code	SKIPPER IN

Market Info:

SENSEX	28085
NIFTY	8678

Share Price Performance**Share Holding pattern (%)**

Particulars	Jun16	Mar16	Dec15
Promoters	72.37	72.37	72.37
FII's	0.17	0.17	0.17
DII's	2.98	2.98	2.98
Others	24.49	24.49	24.49
Total	100	100	100

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Key Financials:

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net Sales	10,404	12,702	14,881	18,539	23,328
EBITDA	1,091	1,726	2,011	2,540	3,219
Adj. PAT	258	466	770	1,127	1,554
EPS	2.52	4.55	7.52	11.02	15.18
OPM (%)	10.49	13.59	13.51	13.70	13.80
NPM (%)	2.48	3.67	5.17	6.08	6.66

Source: Company, KRChoksey Research

Q4FY16 – Detailed Result Analysis (INR Mn):

Particulars	Q1FY17	Q4FY16	Q1FY16	Q-o-Q	Y-o-Y
Net Sales	2826.3	5227.3	2344.2	-45.93%	20.57%
Other operating income	17.9	70.2	22.4	-74.52%	-20.06%
Net Sales & Other Operating Income	2844.2	5297.5	2366.6	-46.31%	20.18%
Total Expenditure	2436.8	4563.4	2013.1	-46.60%	21.04%
Cost of Material Consumed	1939.9	2593.5	2164.3	-25.20%	-10.37%
Purchase of Stock in Trade				-	-
(Increase) / Decrease In Stocks	-169.2	819.8	-704.4	-120.64%	-75.98%
Employee Benefit Expenses	155.1	152.4	102.0	1.77%	52.03%
Other Expenses	511.0	997.8	451.3	-48.79%	13.24%
PBIDT (Excl OI)	407.5	734.1	353.4	-44.50%	15.28%
EBITDA Margins (%)	14.3%	13.9%	14.9%	47bps	-61bps
Depreciation	67.5	63.2	58.8	6.70%	14.73%
EBIT & exceptional Item	340.0	670.9	294.6	-49.32%	15.39%
Other Income	7.8	11.0	6.1	-29.26%	26.65%
Exceptional Items	14.9	0.0	0.0		
EBIT	362.7	681.8	300.8	-46.81%	20.59%
Interest	160.2	155.4	147.3	3.04%	8.76%
EBT	202.5	526.4	153.5	-61.53%	31.94%
Tax	65.3	165.3	53.3	-60.46%	22.64%
PAT	137.2	361.2	100.2	-62.01%	36.89%
PAT Margin (%)	4.8%	6.8%	4.2%	-199bps	59bps
EPS	1.34	3.53	0.98	-62.04%	36.73%

Source: Company, KRChoksey research

Segmental revenue:

Particulars	Q1FY17	Q4FY16	Q1FY16	Q-o-Q	Y-o-Y
Engg. Products	2372.6	4659.4	1951.1	-49.08%	21.61%
PVC Products	378.3	557.6	332.7	-32.15%	13.70%
Infrastructure Projects	108.2	80.5	82.8	34.43%	30.72%
TOTAL	2859.2	5297.5	2366.6	-46.03%	20.81%

Source: Company, KRChoksey research

Segmental EBIT:

Particulars	Q1FY17	Q4FY16	Q1FY16	Q-o-Q	Y-o-Y
Engg. Products	359.5	674.5	295.1	-46.70%	21.85%
PVC Products	36.4	54.9	40.2	-33.68%	-9.38%
Infrastructure Projects	14.5	4.4	19.3	225.18%	-25.25%
Total	410.4	733.9	354.6	-44.08%	15.74%
Less: interest Exp	160.2	155.4	147.3	3.04%	8.76%
Add/Less: other unallocable	47.7	52.1	53.9	-8.34%	-11.35%
PBT	202.5	526.4	153.5	-61.53%	31.94%

Source: Company, KRChoksey research

Segment Margins:

Particulars	Q1FY17	Q4FY16	Q1FY16	Q-o-Q	Y-o-Y
Engg. Products	15.15%	14.48%	15.12%	68bps	3bps
PVC Products	9.63%	9.85%	12.08%	-22bps	-245bps
Infrastructure Projects	13.35%	5.52%	23.35%	783bps	-1000bps

Source: Company, KRChoksey research

Profit & Loss Account:

Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	10,404	12,702	14,881	18,539	23,328
YoY % growth	15.75%	22.09%	17.15%	24.58%	25.83%
Raw material cost	7,870	8,551	9,538	12,421	15,665
(Inc)/Dec in stock in trade	-269	246	-53	334	420
Staff cost	274	341	500	556	665
Other expense	1,439	1,838	2,885	2,688	3,359
Total Expenditure	9,313	10,976	12,870	15,999	20,109
EBITDA	1,091	1,726	2,011	2,540	3,219
YoY % growth	30.25%	58.20%	16.52%	26.29%	26.75%
EBITDA margin (%)	10.49%	13.59%	13.51%	13.70%	13.80%
Depreciation	151	220	241	297	344
EBIT	940	1,506	1,770	2,243	2,875
Interest	605	583	570	570	570
Other income	21	17	52	33	35
Exceptional item (Forex)	-11	-426	-181	-15	-
Profit Before Tax	367	1,366	1,433	1,721	2,340
Tax	98	474	482	578	787
Effective Tax Rate (%)	26.71%	34.71%	33.61%	33.61%	33.61%
Reported PAT	269	892	951	1,142	1,554
YoY % growth	43.82%	231.37%	6.68%	20.09%	35.99%
PAT Margin (%)	2.59%	7.02%	6.39%	6.16%	6.66%
Adjusted PAT	269	892	951	1,142	1,554
YoY % growth	49.93%	80.65%	65.21%	46.44%	37.79%
Adj. PAT Margin (%)	2.48%	3.67%	5.17%	6.08%	6.66%
Reported EPS	2.63	8.71	9.30	11.16	15.18
Adj. EPS	2.52	4.55	7.52	11.02	15.18

Source: Company, KRChoksey research

Balance sheet:

Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Share capital	102	102	102	102	102
Reserves	2,209	2,936	3,713	4,695	6,089
Net worth	2,312	3,039	3,815	4,798	6,191
Long-term Loans	2,639	2,105	2,263	2,300	2,300
Short-term Loans	1,755	1,724	2,419	2,400	2,400
Total Loans	4,395	3,829	4,682	4,700	4,700
Deferred Tax Liability Net	218	265	315	315	315
Liabilities	6,924	7,132	8,812	9,812	11,206
Gross Block	3,943	4,295	4,856	5,955	6,555
Depreciation	558	782	1,004	1,301	1,645
Net Block	3,385	3,513	3,852	4,655	4,911
Capital work-in-progress	83	35	399	-	-
Inventories	2,290	2,282	2,500	3,555	4,474
Trade Receivables	2,318	3,758	3,724	4,825	6,072
Cash and bank balances	263	561	498	434	351
Loans and advances	455	458	929	711	895
Other Current assets	21	31	-	37	47
Total Current assets	5,347	7,090	7,651	9,563	11,838
Trade Payables	1,563	2,415	2,124	3,047	3,835
Other current liabilities & provisions	328	1,090	967	1,357	1,708
Total current liabilities	1,891	3,505	3,091	4,405	5,543
Net current assets	3,456	3,585	4,560	5,158	6,295
Total Assets	6,924	7,132	8,812	9,812	11,206

Source: Company, KRChoksey research

Cashflow:

Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
PBT	367	1,366	1,433	1,721	2,340
Depreciation	151	220	241	297	344
(Inc)/Dec in working capital	-134	170	-1,039	-662	-1,220
Interest paid	605	583	570	570	570
Tax paid	-62	-427	-432	-578	-787
Cash flow from operations	928	1,911	774	1,348	1,247
Net cash from operations	928	1,911	774	1,348	1,247
Capital expenditure (-)	-321	-299	-946	-700	-600
Net cash after capex	607	1,612	-172	648	647
Inc./Dec.) in short-term borrowing	-235	-31	695	-19	-
Inc./dec.) in long-term borrowing	387	-535	158	37	-
Inc./Dec.) in preference capital	-	-	-	-	-
Inc./dec.) in total borrowings	152	-566	853	18	-
Equity issue/(Buyback)	0	-	-	-	-
Interest paid	-605	-583	-570	-570	-570
Dividends paid	-18	-160	-172	-160	-160
Cash from Financial Activities	-472	-1,309	111	-712	-730
Others	-0	-5	-2	2	-
Opening cash	128	263	561	498	434
Closing cash	263	561	498	434	351
Change in cash	135	298	-63	-64	-83

Source: Company, KRChoksey research

Ratios:					
Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Per share (INR)					
EPS	2.63	8.71	9.30	11.16	15.18
Adj. EPS	2.52	4.55	7.52	11.02	15.18
Book value	22.59	29.70	37.29	46.89	60.51
Valuation (x)					
P/E	13.97	17.53	16.99	14.15	10.41
P/E (Adj EPS)	14.58	33.55	21.00	14.34	10.41
P/BV	1.63	5.15	4.24	3.37	2.61
EV/EBITDA	7.23	10.95	10.12	8.04	6.37
EV/Sales	0.76	1.49	1.37	1.10	0.88
Return ratio (%)					
RoCE	14.02	21.93	20.83	23.61	26.40
RoE	11.16	15.34	20.18	23.50	25.09
RoIC	14.59	23.88	22.13	24.74	27.28
Profitability ratio (%)					
EBITDA margin	10.49%	13.59%	13.51%	13.70%	13.80%
EBIT margin	9.04%	11.86%	11.89%	12.10%	12.33%
PBT margin	3.53%	10.75%	9.63%	9.28%	10.03%
PAT margin	2.48%	3.67%	5.17%	6.08%	6.66%
Adj PAT margin	2.48%	3.67%	5.17%	6.08%	6.66%
Turnover ratio					
Asset turnover ratio (x)	1.50	1.78	1.69	1.89	2.08
Debtor days	81	108	91	95	95
Inventory days	80	66	61	70	70
Creditors days	55	69	52	60	60
Solvency ratio (x)					
Debt-equity	1.90	1.26	1.23	0.98	0.76
Interest coverage	1.55	2.59	3.10	3.93	5.04

Source: Company, KRChoksey research

Skipper Ltd.				Rating Legend	
Date	CMP (Rs.)	TGT (Rs.)	Recommendation	Our Rating	Upside
10-Aug-16	158	248	BUY	Buy	More than 15%
19-May-16	142	248	BUY	Accumulate	5% - 15%
03-Feb-16	163	248	BUY	Hold	0 - 5%
04-Jan-16	177	285	BUY	Reduce	-5% - 0
				Sell	Less than -5%

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