

Skipper

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In-line performance

- Skipper's operational performance was in line with our expectations. Revenues increased by 29% yoy. Adjusted for the restated 2QFY17 financials, EBITDAM declined by 23bps yoy while the APAT increased by 3% yoy.
- While engineering products reported strong growth of 34%yoy, the polymer segment declined by 2% yoy impacted by GST related disruptions. Management commentary indicates dealer re-stocking have commenced from November 2017.
- Order inflows was at ~Rs4.3bn while the backlog stood at Rs26bn. The company has formed a JV with MetzgerPlas - Israeli kibbutz-based industry of micro-irrigation products and is expected to introduce drip irrigation solutions in India.
- Management had increased the revenue guidance from 15% to 20% with EBIDTAM of ~13-14%. Upgrade FY18/19/20E EPS by 7.9% / 14.2% and 14.8% respectively on higher revenue assumptions. Maintain BUY with price target of Rs327 (SoTP based)

- **Steady performance:** Skipper reported revenues at Rs 5.1bn (+29% yoy), broadly in line with our expectations. While the gross margins declined by 406bps to 33%, the adjusted EBIDTAM (*excluding the impact of INDAS in 2QFY17*) declined by 23bps to 13.2%. PAT increased by 3% yoy to Rs232mn. Revenues in the engineering product segment increased by 34% yoy to Rs4.6bn – aided by strong commodity prices. EBITM in the engineering segment declined by 89bps to 13%. Revenues in the polymer segment declined by 2% yoy decline to Rs428mn as GST related disruptions impacted offtake from distributors and dealers. EBITM declined by 235bps to 7%. Order inflows worth Rs4.3bn was accrued from PGCIL, SEB's and private sector players. Order back log stands strong at ~Rs26bn. The company has marked its entry in railway electrification projects – L1 in order worth Rs160mn.
- **Maintain BUY:** Strong order backlog of ~Rs26bn (*1.8x FY17 Engineering product sales*) coupled with steady order pipeline ensures robust revenue visibility in the engineering product segment over the next couple of years. Management commentary indicate that GST related disruptions are now waning, and majority of dealers have commenced re-stocking of PVC pipes. The company expects the polymer division to report ~25-30% growth in FY18 and ~ 50-55% growth in the subsequent two years. The JV with Israel based MetzgerPlas is expected to help Skipper mark its entry into the Rs50bn market for drip irrigation. Going forward, the company is also planning to increasingly bid for railway electrification projects. We expect the company to post robust revenue and PAT growth (FY17-20 CAGR) of ~ 24% and ~28% respectively. We Maintain BUY with revised price target of Rs327 (SoTP based on FY20E earnings).

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	15,062	17,030	20,597	25,889	32,120
EBITDA	2,192	2,460	2,803	3,442	4,278
EBITDA Margin (%)	14.6	14.4	13.6	13.3	13.3
APAT	951	1,115	1,328	1,756	2,322
EPS (Rs)	9.3	10.9	13.0	17.2	22.7
EPS (% chg)	6.7	17.3	19.1	32.2	32.3
ROE (%)	27.7	25.5	24.1	25.6	26.7
P/E (x)	28.3	24.2	20.3	15.4	11.6
EV/EBITDA (x)	14.1	12.5	11.1	9.1	7.3
P/BV (x)	7.1	5.5	4.4	3.5	2.8

Source: Company, Emkay Research

CMP	Target Price
Rs 263 as of (November 24, 2017)	Rs 327 (▲) 12 months
Rating	Upside
BUY (■)	24.1 %

Change in Estimates

EPS Chg FY18E/FY19E (%)	8.3/14.7
Target Price change (%)	16.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	13.0	17.2
Consensus	11.9	14.8
Mean Consensus TP (12M)	Rs 251	

Stock Details

Bloomberg Code	SKIPPER IN
Face Value (Rs)	1
Shares outstanding (mn)	102
52 Week H/L	277 / 126
M Cap (Rs bn/USD bn)	27 / 0.42
Daily Avg Volume (nos.)	4,12,792
Daily Avg Turnover (US\$ mn)	1.5

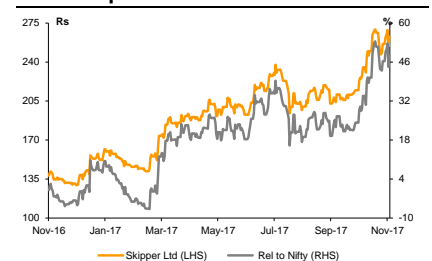
Shareholding Pattern Sep '17

Promoters	70.4%
FII's	2.4%
DII's	11.5%
Public and Others	15.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	32	38	96
Rel. to Nifty	15	25	24	51

Relative price chart



Source: Bloomberg

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Exhibit 1: Quarterly Financials - Standalone

Rs mn	Q2FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	YTD'18	YTD'17	Gr (%)
Revenue	3,908	3,988	5,156	31.9	29.3	9,144	6,750	35.5
Expenditure	3,173	3,472	4,473	41.0	28.8	7,945	5,622	41.3
Consumption of RM	2,528	2,470	3,458	36.8	40.0	5,928	4,299	37.9
as % of sales	65%	62%	67%		8.3	65%	64%	
Employee Cost	191	210	251	31.7	19.7	461	345	33.7
as % of sales	5%	5%	5%		(7.4)	5%	5%	
Other expenditure	454	792	765	68.4	(3.5)	1,557	978	59.1
as % of sales	12%	20%	15%		(25.3)	17%	14%	
EBITDA	735	516	683	(7.1)	32.3	1,199	1,129	6.2
Depreciation	72	107	121	68.0	12.1	228	139	63.7
EBIT	664	409	562	(15.3)	37.6	971	989	(1.9)
Other Income	7	8	3	(55.9)	(56.6)	11	15	(29.3)
Interest	166	169	200	20.6	18.8	369	345	7.0
PBT	505	248	365	(27.7)	47.6	613	660	(7.1)
Total Tax	172	88	133	(22.7)	51.4	221	221	(0.3)
Adjusted PAT	333	160	232	(30.2)	45.5	392	439	(10.6)
Adjusted EPS	3.3	1.6	2.3	(30.3)	45.5	3.8	4.3	(10.7)

Margins (%)				(bps)	(bps)			(bps)
EBIDTA	18.8	12.9	13.2	(560)	30	13.1	16.7	-360
EBIT	17.0	10.2	10.9	(610)	70	10.6	14.7	-400
EBT	12.9	6.2	7.1	(580)	90	6.7	9.8	-310
PAT	8.5	4.0	4.5	(400)	50	4.3	6.5	-220
Effective Tax rate	34.0	35.5	36.4	240	90	36.0	33.5	250

Source: Company, Emkay Research

Exhibit 2: Segmental Performance-Standalone

Rs mn	Q2FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	YTD'18	YTD'17	Gr (%)
Segment Revenues								
Engineering Products	3,627	3,651	4,634	27.8	26.9	8,285	6,198	33.7
Infrastructure Projects	125	243	95	(24.4)	(61.0)	338	234	44.5
PVC Products	460	433	428	(7.0)	(1.2)	861	880	(2.1)
Total	4,212	4,327	5,156	22.4	19.2	9,483	7,311	29.7
Segment Results								
Engineering Products	660	439	606	(8.1)	37.9	1,046	989	5.7
Infrastructure Projects	19	29	11	(39.9)	(61.8)	41	34	21.5
PVC Products	40	31	28	(28.9)	(8.7)	59	76	(22.2)
Total	718	500	645	(10.1)	29.1	1,145	1,099	4.2
Add- Unall Income / (Exp)	7	8	3	(55.9)	(56.6)	11	15	(26.7)
Less- Interest Exp	166	169	200	20.6	18.8	369	345	7.0
Corporate expenditure	54	91	83	53.1	(8.8)	174	109	60.1
PBT	505	248	365	(27.7)	47.6	613	660	(7.1)
Segment Margins (%)								
Engineering Products	18.2	12.0	13.1	(510)	100	12.6	16.0	(330)
Infrastructure Projects	14.9	12.1	11.9	(310)	(20)	12.1	14.3	(230)
PVC Products	8.6	7.1	6.6	(200)	(50)	6.9	8.6	(180)
Average	17.0	11.6	12.5	(450)	100	12.1	15.0	(300)

Source: Company, Emkay Research

Exhibit 3: Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY18E			FY19E			FY20E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	19,534	20,597	5.4	23,484	25,889	10.2	28,533	32,120	12.6
EBITDA	2,664	2,803	5.2	3,132	3,442	9.9	3,817	4,278	12.1
EBITDA Margin (%)	13.6	13.6	0 bps	13.3	13.3	0 bps	13.4	13.3	-10 bps
APAT	1,231	1,328	7.9	1,538	1,756	14.2	2,023	2,322	14.8
EPS (Rs)	12.0	13.0	7.9	15.0	17.2	14.2	19.8	22.7	14.8

Source: Company, Emkay Research

Exhibit 4: Assumptions-Income Statement

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Segment Revenues								
Engineering Products	8,350	9,554	11,768	13,260	14,237	17,078	20,613	23,575
Growth %	24%	14%	23%	13%	7%	20%	21%	14%
Infrastructure Projects	172	270	462	277	813	1,057	1,480	2,072
Growth %	-58%	57%	71%	-40%	194%	30%	40%	40%
PVC Products	481	591	897	1,525	1,980	2,462	3,797	6,474
Growth %	61%	23%	52%	70%	30%	24%	54%	70%
Total	9,003	10,415	13,128	15,062	17,030	20,597	25,889	32,120
EBITM								
Engineering Products	7.3%	9.5%	15.4%	14.6%	14.6%	13.5%	13.0%	13.0%
Infrastructure Projects	28.7%	39.7%	23.8%	15.5%	13.7%	13.0%	13.0%	13.0%
PVC Products	10.8%	10.1%	11.5%	10.8%	8.4%	9.0%	11.0%	12.0%
EBIT								
Engineering Products	606	904	1,809	1,937	2,083	2,305	2,680	3,065
Infrastructure Projects	50	107	110	43	111	137	192	269
PVC Products	52	60	103	165	165	222	418	777
Total	707	1,071	2,022	2,145	2,359	2,664	3,290	4,111
Corporate Expenditure	-20	119	90	194	214	225	250	275
Other Income	14	21	17	52	31	15	15	15
Finance cost	464	605	583	570	611	558	547	519
PBT	278	367	1,365	1,433	1,565	1,897	2,508	3,332
Taxes	90	98	474	482	450	569	752	1,000
PAT	187	269	891	951	1,115	1,328	1,756	2,332
EPS	2.5	2.7	8.7	9.3	10.9	13.0	17.2	22.8

Source: Company, Emkay Research

Exhibit 5: Segment PAT (FY2020)

	Engineering	Infrastructure	Polymer	Other Inc	Total
EBIT	3,065	269	777	15	4,126
Less: Interest	402	53	64	-	519
Corporate expenditure	213	28	34	-	275
PBT	2,450	188	679	15	3,332
Less: Tax	735	56	204	5	1,000
PAT	1,715	132	475	11	2,332

Source: Company, Emkay Research

Exhibit 6: Valuation Summary

	PAT	P/E (x)	Valuation	per share
Engineering	1,715	13.0	22,291	218
Infrastructure	132	13.0	1,712	17
Polymer	475	20.0	9,509	93
Total Value			33,512	
No of Shares			102	
Target Price			327	

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	15,062	17,030	20,597	25,889	32,120
Expenditure	12,870	14,569	17,794	22,447	27,842
EBITDA	2,192	2,460	2,803	3,442	4,278
Depreciation	241	315	363	403	443
EBIT	1,951	2,145	2,439	3,040	3,836
Other Income	52	31	15	15	15
Interest expenses	570	611	558	547	534
PBT	1,433	1,565	1,897	2,508	3,317
Tax	482	450	569	752	995
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	951	1,115	1,328	1,756	2,322
Adjusted PAT	951	1,115	1,328	1,756	2,322

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	102	102	102	102	102
Reserves & surplus	3,713	4,841	5,977	7,536	9,661
Net worth	3,815	4,943	6,080	7,638	9,763
Minority Interest	0	0	0	0	0
Loan Funds	4,504	4,159	4,500	4,500	4,400
Net deferred tax liability	315	391	391	391	391
Total Liabilities	8,634	9,493	10,971	12,529	14,554
Net block	3,852	4,642	5,179	5,526	5,834
Investment	0	0	0	0	0
Current Assets	7,651	8,524	10,130	12,234	14,986
Cash & bank balance	498	249	295	93	131
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	3,268	3,817	4,339	5,231	6,266
Net current assets	4,383	4,707	5,791	7,003	8,720
Misc. exp	0	0	0	0	0
Total Assets	8,634	9,493	10,971	12,529	14,554

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,381	1,534	1,882	2,493	3,302
Other Non-Cash items	62	20	0	0	0
Chg in working cap	(1,208)	(496)	(1,039)	(1,413)	(1,680)
Operating Cashflow	651	1,752	1,194	1,277	1,604
Capital expenditure	(946)	(850)	(756)	(750)	(750)
Free Cash Flow	(295)	903	438	527	854
Investments	0	0	0	0	0
Other Investing Cash Flow	(25)	21	0	0	0
Investing Cashflow	(919)	(797)	(741)	(735)	(735)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	1,073	(346)	341	0	(100)
Dividend paid (incl tax)	(160)	(172)	(191)	(197)	(197)
Other Financing Cash Flow	(215)	43	0	0	0
Financing Cashflow	128	(1,087)	(407)	(744)	(831)
Net chg in cash	(140)	(132)	46	(202)	38
Opening cash position	561	498	249	295	93
Closing cash position	498	249	295	93	131

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	14.6	14.4	13.6	13.3	13.3
EBIT Margin	13.0	12.6	11.8	11.7	11.9
Effective Tax Rate	33.6	28.8	30.0	30.0	30.0
Net Margin	6.3	6.5	6.4	6.8	7.2
ROCE	26.1	24.0	24.0	26.0	28.4
ROE	27.7	25.5	24.1	25.6	26.7
RoIC	28.1	25.5	24.7	26.3	28.6

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	9.3	10.9	13.0	17.2	22.7
CEPS	11.6	14.0	16.5	21.1	27.0
BVPS	37.3	48.3	59.4	74.7	95.4
DPS	1.4	1.6	1.6	1.6	1.6

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	28.3	24.2	20.3	15.4	11.6
P/CEPS	22.6	18.8	15.9	12.5	9.7
P/BV	7.1	5.5	4.4	3.5	2.8
EV / Sales	2.1	1.8	1.5	1.2	1.0
EV / EBITDA	14.1	12.5	11.1	9.1	7.3
Dividend Yield (%)	0.5	0.6	0.6	0.6	0.6

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	1.1	0.8	0.7	0.6	0.4
Net Debt/EBIDTA	1.8	1.6	1.5	1.3	1.0
Working Cap Cycle (days)	94.1	95.5	97.4	97.4	97.6

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	14.7	13.1	20.9	25.7	24.1
EBITDA	1.9	12.2	13.9	22.8	24.3
EBIT	1.0	9.9	13.7	24.6	26.2
PAT	6.7	17.3	19.1	32.2	32.3

Quarterly (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	3,908	4,306	5,837	3,988	5,156
EBITDA	735	570	912	516	683
EBITDA Margin (%)	18.8	13.2	15.6	12.9	13.2
PAT	333	224	528	160	232
EPS (Rs)	3.3	2.2	5.2	1.6	2.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoters	72.4	72.4	70.4	70.4	70.4
FIs	1.5	1.5	1.5	2.0	2.4
DIs	3.1	6.9	10.8	11.0	11.5
Public and Others	23.0	19.2	17.2	16.5	15.8

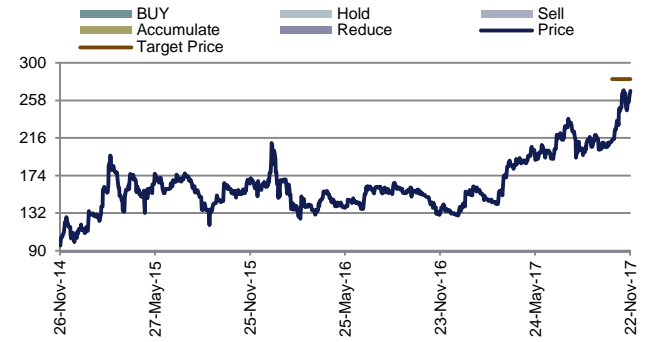
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
18-Oct-17	214	282	12m	Buy	John Perinchery

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:

Dissemination Date:

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