

Healthy execution, rise in inventory

Skipper's sales grew 32/29% YoY/QoQ to Rs 5.2bn vs our expectation of 12% YoY growth, aided by a 28% YoY rise in Engineering revenues to Rs 4.6bn. A 250 bps rise in raw material cost impacted gross margins, which fell to 32.9% vs 35.4% YoY. Further, a 323bps rise in other expenses (at 14.8% of sales) led to EBITDAM fall of 573bps to 13.2% (in line with our estimates). Net profit fell 30% YoY to Rs 232mn, a result of higher depreciation (up 68% YoY to Rs 121mn), interest cost (up 21% YoY to Rs 200mn) and tax rate (at 36.4% vs 34%).

Skipper benefits from not just power T&D spends. The company's low-cost integrated operation enables it to earn better margins/ bid competitively. While the GST impact was witnessed in the Polymer segment, the outlook seems promising, with a shift from the unorganised to organised sector. With working capital expansion owing to rising inventory and the recent run up in the stock price, we downgrade Skipper to NEUTRAL with TP of Rs 253/share.

Financial Summary: Standalone

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY16*	FY17*	FY18E	FY19E	FY20E
Net Sales	5,156	3,915	32	3,988	29	14,881	16,836	20,629	23,589	27,090
EBITDA	683	743	(8)	516	32	2,132	2,149	2,685	3,176	3,732
APAT	232	333	(30)	160	45	911	894	1,063	1,390	1,807
Diluted EPS (Rs)	2.3	3.3	(30)	1.6	45	8.9	8.7	10.4	13.6	17.6
P/E (x)						29.6	30.1	25.3	19.4	14.9
EV / EBITDA (x)						14.6	14.5	11.8	9.7	8.2
RoE (%)						26.6	20.4	19.8	21.6	23.1

Source: Company, HDFC sec Inst Research *Based on I-GAAP

Highlights of the quarter

- Order inflows stood at Rs 4.3bn, resulting in an order backlog of Rs 25.8bn (+12% YoY), providing comfort to our revenue estimates for FY18/19E.
- Polymer business revenues fell 7% on back of GST transition issues. The mgt expects the GST impact to get mitigated in 2H.
- With an Rs 1.1bn rise in inventory, WC days rose to 114 (vs 98 as on FY17). Consequently, net debt rose by Rs 922mn to Rs 5.1bn.

Skipper is forming a JV with Metzterplas, a manufacturer of Drip Irrigation Solutions from Israel, with an eye on a potential Rs 50bn market opportunity. The company has forayed into manufacturing of solar structures and will carry it out from its existing Uluberia plant. While trial productions are underway, the mgt plans to tie up with developers as against bidding for EPC contracts themselves.

- Near term view:** We would await reduction in working capital. **Neutral.**

INDUSTRY	CAPITAL GOODS
CMP (As on 24 Nov 2017)	Rs 263
Target Price	Rs 253
Nifty	10,390
Sensex	33,679

KEY STOCK DATA

Bloomberg	SKIPPER IN
No. of Shares (mn)	102
MCap (Rs bn) / (\$ mn)	27/416
6m avg traded value (Rs mn)	61

STOCK PERFORMANCE (%)

52 Week high / low	Rs 277/126		
	3M	6M	12M
Absolute (%)	31.5	37.3	95.9
Relative (%)	24.9	26.2	65.7

SHAREHOLDING PATTERN (%)

Promoters	70.35
FIs & Local MFs	11.49
FPIs	2.39
Public & Others	15.77

Source : BSE

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Revenue grew 32% YoY led by strong execution in the Engineering segment (+28% YoY).

2QFY17 restated financials (Under IndAS) now include Rs 166 mn of forex M2M notional gain leading to restated net profit of Rs 333mn (vs Rs 226 mn under IGAAP).

A 250 bps rise in raw material cost impacted gross margins, which fell to 32.9% vs 35.4% YoY.

Quarterly Financials Snapshot: Standalone

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net Sales	5,156	3,915	32	3,988	29
Material Expenses	3,458	2,528		2,470	
Employee Expenses	251	191		210	
Other Operating Expenses	765	454		792	
EBITDA	683	743	(8)	516	32
Depreciation	121	72		107	
Other Income	3	-		8	
Interest Cost	200	166		169	
PBT	365	505	(28)	248	48
Tax	133	172		88	
RPAT	232	333	(30)	160	45
EO Items (Adj For Tax)	-	-		-	
APAT	232	333	(30)	160	45

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

	2QFY18	2QFY17	YoY (bps)	1QFY18	QoQ (bps)
Material Expenses % Net Sales	67.1	64.6	249	61.9	512
Employee Expenses % Net Sales	4.9	4.9	0	5.3	(39)
Other Operating Expenses % Net Sales	14.8	11.6	323	19.9	(503)
EBITDA Margin (%)	13.2	19.0	(573)	12.9	30
Tax Rate (%)	36.4	34.0	236	35.5	91
APAT Margin (%)	4.5	8.5	(400)	4.0	50

Source: Company, HDFC sec Inst Research

Impacted by GST, Infrastructure projects/Polymer products sales fell 24/7% to Rs95/428 mn.

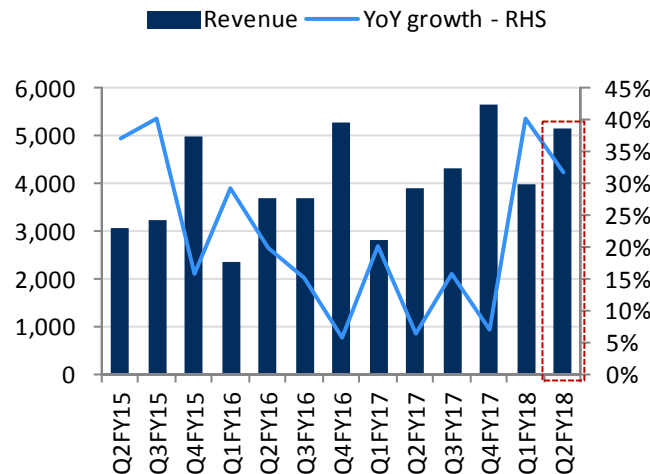
Robust order flows from NE led to a 64% rise in fresh orders to Rs 4.3bn. The breakup between PGCIL/exports/others stood at 40/12/48%.

Segmental Quarterly Performance: Standalone

Rs mn	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Segmental Revenue					
Infrastructure Projects	95	125	(24)	243	(61)
Polymer Products	428	460	(7)	433	(1)
Engineering Products	4,634	3,627	28	3,651	27
Total	5,156	4,212	22	4,327	19
EBIT					
Infrastructure Projects	11	19	(40)	29	(62)
Polymer Products	28	40	(29)	31	(9)
Engineering Products	606	660	(8)	439	38
EBIT Margins (%)					
Infrastructure Projects	11.9	14.9	-307	12.1	(25)
Polymer Products	6.6	8.6	-203	7.1	(54)
Engineering Products	13.1	18.2	-511	12.0	104

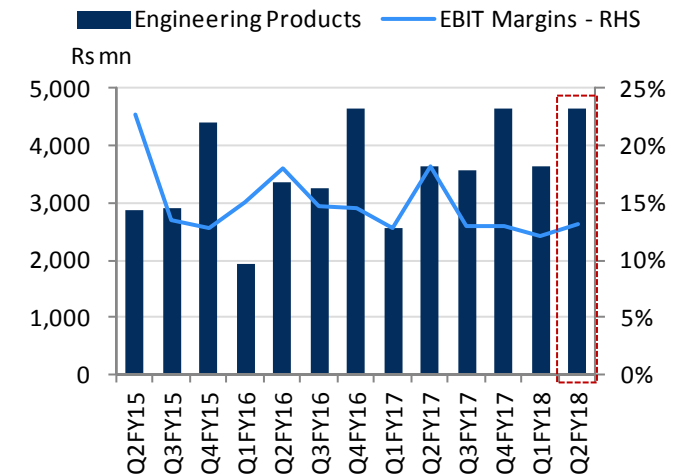
Source: Company, HDFC sec Inst Research

Revenue Trajectory



Source: Company, HDFC sec Inst Research

Engineering Projects: Revenue And EBIT Margin

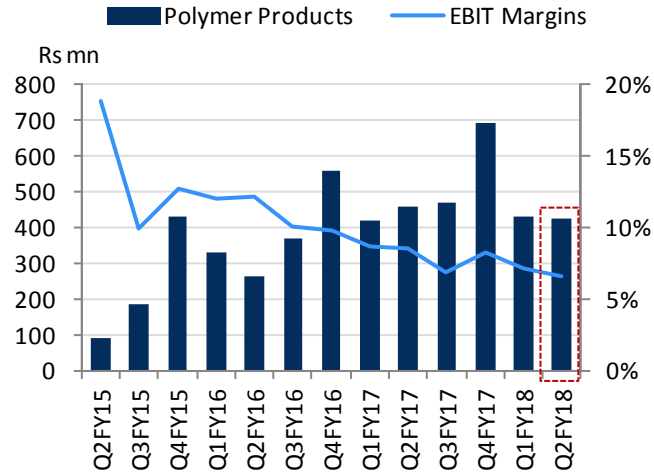


Source: Company, HDFC sec Inst Research

With GST implementation, polymer revenues were down 7% YoY. However, the segment is likely to benefit with shift from unorganised to organised sector.

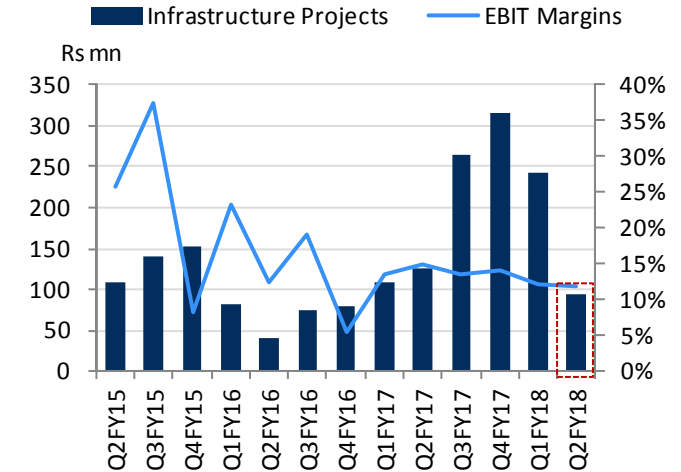
Skipper has revised the FY18 revenue growth guidance upwards to 20% from 15%.

Polymer Products: Revenue And EBIT Margin



Source: Company, HDFC sec Inst Research

Infrastructure Products: Revenue And EBIT Margin



Source: Company, HDFC sec Inst Research

Key Assumptions & Estimates: Standalone

Rs mn	FY16	FY17	FY18E	FY19E	FY20E
Revenue					
Engineering Products	13,260	14,237	16,955	18,685	20,584
YoY growth	12.7%	7.4%	19.1%	10.2%	10.2%
Infrastructure Projects	277	813	976	1,220	1,524
YoY growth	-40.2%	193.9%	20.0%	25.0%	25.0%
Polymer Products	1,525	1,980	2,699	3,684	4,981
YoY growth	70.0%	29.8%	36.3%	36.5%	35.2%
Total	15,062	17,030	20,629	23,589	27,090
YoY growth	14.7%	13.1%	21.1%	14.3%	14.8%
EBIT Margins					
Engineering Products	13.2%	13.3%	12.6%	13.5%	13.8%
Infrastructure Projects	15.4%	13.7%	12.5%	13.0%	13.5%
Polymer Products	10.8%	8.4%	7.5%	9.0%	9.5%
Capex					
Capex	917	975	700	600	600
Net Debt					
Net Debt	4,184	4,129	4,749	4,005	3,650

SOTP Valuation

Business	Method	Sept-19E APAT	Multiple (x)	Valuation	VPS
Engineering Products	P/E multiple	1,313	15	19,688	192
Polymer Products	P/E multiple	197	25	4,924	48
Infrastructure Projects	P/E multiple	89	15	1,337	13
SOTP					253

Source: Company, HDFC sec Inst Research

Income Statement: Standalone

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	14,881	16,836	20,629	23,589	27,090
Growth (%)	17.1	13.1	22.5	14.3	14.8
Material Expenses	9,485	10,908	13,409	15,333	17,608
Employee Expenses	500	732	878	966	1,101
SG&A Expenses	2,764	3,048	3,657	4,114	4,649
Total Expenses	12,749	14,687	17,944	20,413	23,358
EBIDTA	2,132	2,149	2,685	3,176	3,732
EBIDTA %	14.3	12.8	13.0	13.5	13.8
EBIDTA Growth %	24.6	0.8	24.9	18.3	17.5
Depreciation	241	315	440	449	457
EBIT	1,891	1,834	2,246	2,727	3,275
Other Income (Including EO Items)	112	342	34	43	54
Interest	570	611	654	644	565
PBT	1,433	1,565	1,626	2,126	2,763
Tax (Incl Deferred)	482	450	563	736	956
RPAT	951	1,115	1,063	1,390	1,807
EO (Loss) / Profit (Net Of Tax)	40	222	-	-	-
APAT	911	894	1,063	1,390	1,807
APAT Growth (%)	50.8	(1.9)	19.0	30.8	30.0
Adjusted EPS (Rs)	8.9	8.7	10.4	13.6	17.6
EPS Growth (%)	50.8	(1.9)	19.0	30.8	30.0

Source: Company, HDFC sec Inst Research

Balance Sheet: Standalone

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	102	102	102	102	102
Reserves	3,713	4,841	5,719	6,924	8,547
Total Shareholders Funds	3,815	4,943	5,821	7,027	8,649
Long Term Debt	1,983	1,758	2,550	2,250	2,000
Short Term Debt	2,699	2,620	2,420	2,120	1,820
Total Debt	4,682	4,378	4,970	4,370	3,820
Net Deferred Taxes	315	391	391	391	391
Other Non-current Liabilities & Provns	13	22	14	16	18
TOTAL SOURCES OF FUNDS	8,825	9,734	11,196	11,803	12,878
APPLICATION OF FUNDS					
Net Block	3,852	4,642	4,496	4,747	4,890
CWIP	421	294	700	600	600
Investments	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-
Total Non-current Assets	4,274	4,936	5,196	5,347	5,490
Inventories	2,500	3,682	4,522	4,653	5,566
Debtors	3,724	3,730	4,804	5,493	6,309
Other Current Assets	907	713	848	969	1,113
Cash & equivalents	498	249	221	366	170
Total Current Assets	7,629	8,374	10,395	11,481	13,159
Creditors	2,884	3,571	4,239	4,847	5,566
Other Current Liabilities & Provns	193	5	156	178	205
Total Current Liabilities	3,077	3,575	4,395	5,025	5,771
Net Current Assets	4,552	4,798	6,000	6,456	7,387
TOTAL APPLICATION OF FUNDS	8,825	9,734	11,196	11,803	12,878

Source: Company, HDFC Sec Inst Research

Cash Flow Statement: Standalone

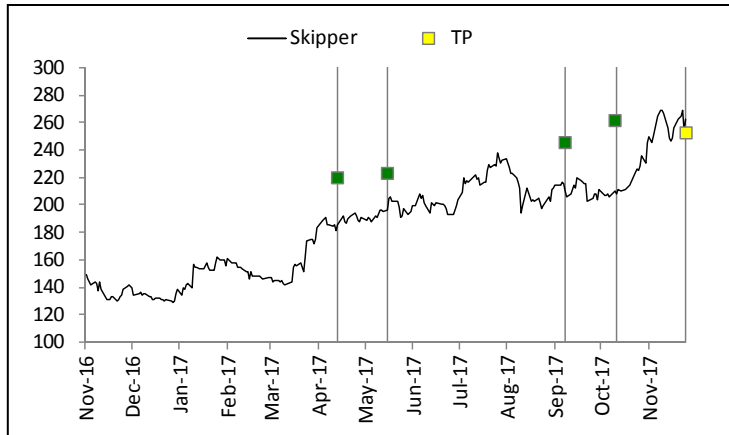
(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,433	1,565	1,626	2,126	2,763
Non-operating & EO items	(112)	(342)	(34)	(43)	(54)
Interest Expenses	570	611	654	644	565
Depreciation	241	315	440	449	457
Working capital change	(1,047)	(487)	(1,238)	(310)	(1,124)
Tax Paid	(482)	(450)	(563)	(736)	(956)
Other operating items	28	259	-	-	-
OPERATING CASH FLOW (a)	631	1,472	885	2,131	1,651
Capex	(917)	(975)	(700)	(600)	(600)
Free Cash Flow	(286)	496	185	1,531	1,051
Investments	-	-	-	-	-
Non-operating Income	112	342	34	43	54
INVESTING CASH FLOW (b)	(805)	(633)	(666)	(557)	(546)
Debt Issuance/(Repaid)	853	(304)	592	(600)	(550)
Interest	(570)	(611)	(654)	(644)	(565)
FCFE	(2)	(418)	122	286	(64)
Share Capital Issuance	0	-	0	-	-
Dividend	(172)	(172)	(185)	(185)	(185)
FINANCING CASH FLOW (c)	111	(1,087)	(247)	(1,429)	(1,300)
NET CASH FLOW (a+b+c)	(63)	(248)	(28)	144	(195)
Closing Cash & Equivalents	498	250	221	366	170

Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY %					
GPM	36.3	35.2	35.0	35.0	35.0
EBITDA margin	14.3	12.8	13.0	13.5	13.8
APAT margin	6.1	5.3	5.2	5.9	6.7
RoE	26.6	20.4	19.8	21.6	23.1
Core RoCE (RoIC)	16.9	14.7	14.4	15.9	17.7
RoCE	16.2	14.3	14.2	15.8	17.6
EFFICIENCY					
Tax Rate (%)	33.6	28.7	34.6	34.6	34.6
Fixed Asset Turnover (x)	3.5	3.4	4.0	4.4	4.9
<i>Inventory (days)</i>	<i>61.3</i>	<i>79.8</i>	<i>80.0</i>	<i>72.0</i>	<i>75.0</i>
<i>Debtors (days)</i>	<i>91.3</i>	<i>80.9</i>	<i>85.0</i>	<i>85.0</i>	<i>85.0</i>
<i>Other Current Assets (days)</i>	<i>22.3</i>	<i>15.5</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>
<i>Payables (days)</i>	<i>70.7</i>	<i>77.4</i>	<i>75.0</i>	<i>75.0</i>	<i>75.0</i>
<i>Other Current Liab & Provns (days)</i>	<i>4.7</i>	<i>0.1</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>
<i>Cash Conversion Cycle (days)</i>	<i>99.4</i>	<i>98.6</i>	<i>102.2</i>	<i>94.2</i>	<i>97.2</i>
Debt/EBITDA (x)	2.2	2.0	1.9	1.4	1.0
Net D/E (x)	1.1	0.8	0.8	0.6	0.4
Interest Coverage (x)	3.3	3.0	3.4	4.2	5.8
PER SHARE DATA (Rs)					
EPS	8.9	8.7	10.4	13.6	17.6
CEPS	11.3	11.8	14.7	18.0	22.1
Dividend	1.4	1.4	1.5	1.5	1.5
Book Value	37.3	48.3	56.8	68.6	84.5
VALUATION					
P/E (x)	29.6	30.1	25.3	19.4	14.9
P/BV (x)	7.1	5.4	4.6	3.8	3.1
EV/EBITDA (x)	14.6	14.5	11.8	9.7	8.2
EV/Revenues (x)	2.1	1.8	1.5	1.3	1.1
OCF/EV (%)	2.0	4.7	2.8	6.9	5.4
FCF/EV (%)	(0.9)	1.6	0.6	4.9	3.4
FCFE/Mkt Cap (%)	(0.0)	(1.6)	0.5	1.1	(0.2)
Dividend Yield (%)	0.5	0.5	0.6	0.6	0.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
17-Apr-17	185	BUY	220
15-May-17	197	BUY	223
7-Sep-17	215	BUY	245
10-Oct-17	207	BUY	261
24-Nov-17	263	NEU	253

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-) 10% returns over the next 12 month

INSTITUTIONAL RESEARCH

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