Result Update

Skipper

Upgrade to Reduce (Prev. - Sell)

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Engg segment growth continues with visible new opportunities

- Revenue grew 24.4% YoY to ₹ 5,664.2mn, grew 9.9% QoQ from ₹ 5,156 mn with 10% increase in commodity cost passed on to the customers.
- EBITDA grew 27% YoY to ₹ 740.8mn, grew ~9% QoQ from ₹ 682.7mn
- EBITDA margin grew 52bps YoY to 14.4%, grew 113bps QoQ from 13.2%.
- PAT grew 31.5% YoY to ₹ 292mn, grew 25.7% QoQ from ₹ 232.2mn.
- Net Profit margin grew 39bps YoY to 5.7%, grew 116bps QoQ from 4.5%.
- The revenue from Engg Products business up 28.5% YoY to ₹ 4,863mn, grew 5% QoQ from ₹ 4,633.7mn
- The revenue from Polymer business grew 6.4% YoY to ₹ 539.9mn, grew 26.2% QoQ from ₹ 427.8mn
- The company got new orders worth ₹ 5,250mn during Q3FY18 for engineering products supply from Power Grid Corporation of India Limited (PGCIL), Transmission Corporation of Telangana Ltd (TS TRANSCO), Tamil Nadu Transmission Corporation Ltd (TAN TRANSCO) Reliance Jio (₹ 860mn) and for various supplies across South-east Asia.
- The order book as on Dec'17 at ₹ 25.3bn with domestic orders (PGCIL-50% and SEBs-30%) at 80% of total value with the rest as exports.
- Visible uptick in new orders and execution from PGCIL with the utility tying up with SEBs in the states of Bihar, Jharkhand, Odisha and North-East region.
- **View-** With expected new orders from PGCIL, new opportunities in rail electrification and solar structures the outlook looks strong but the PVC segment faces competition along with pricing pressure. Hence, we upgrade to ***Reduce*** rating with a TP of ₹ 258.

Q3FY18 Result (₹ Mn)

Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Operating Income	**5,664**	**4,555**	**24.4**	**5,156**	**9.9**
Material Cost	3,693	2,947	25.3	3,855	(4.2)
Changes in inventories	210	(105)	300.1	(397)	(152.8)
Staff Expenses	236	194	21.6	251	(6.3)
Other Expenses	786	935	(16)	765	2.8
EBITDA	**741**	**583**	**27.0**	**683**	**8.5**
Other Income	3	8	(59.0)	3	1.2
Depreciation	118	76	54.4	121	(2.4)
Interest	176	190	(7.3)	200	(12.0)
Tax	158	103	53.5)	133	119.0
Net Profit	**292**	**222**	**31.5**	**232**	**25.7**
			bps		bps
Material Cost (%)	68.9	62.4	648	67.1	184
Staff Cost (%)	4.2	4.3	(9)	4.9	(72)
Other Expenditure (%)	13.9	20.5	(666)	14.8	(96)
EBITDA (%)	14.4	13.8	52	13.2	113
NPM (%)	5.7	5.3	39	4.5	116

CMP	₹ 237
Target / Upside	₹ 258/9%
BSE Sensex	34,195
NSE Nifty	10,498
Scrip Details	
Equity / FV	₹ 102mn/ ₹1/-
Market Cap	₹ 24bn
	USD 0.37bn
52-week High/Low	₹ 293/140
Avg. Volume (no)	149,328
NSE Symbol	SKIPPER
Bloomberg Code	SKIPPER IN
Shareholding Pattern Dec'17(%)	
Promoters	70.4
MF/Banks/FIs	9.1
FIIs	6.2
Public / Others	13.6

Valuation (x)

	FY18E	FY19E	FY20E
P/E	21.2	16.6	12.9
EV/EBITDA	10.6	9.0	7.5
ROE	22.4	23.7	24.6
ROCE	23.1	24.5	25.5

Estimates (₹ mn)

	FY18E	FY19E	FY20E
Net Sales	21,196	24,841	29,281
EBITDA	2,692	3,204	3,894
PAT	1,145	1,464	1,887
EPS	11.2	14.3	18.4

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DOLAT CAPITAL

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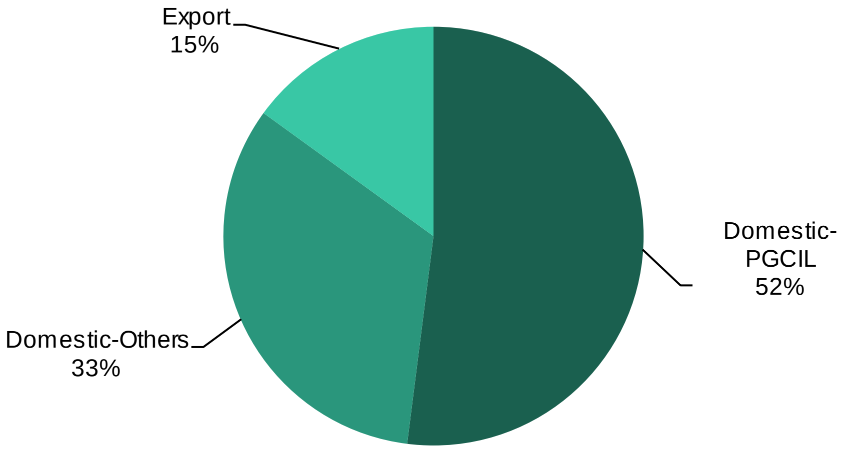
Other key takeaways from earnings call

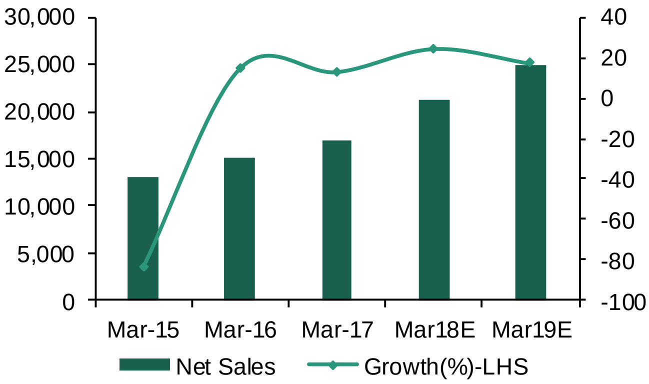
- To bid for rail electrification projects with local players.
- The management sees rail electrification and solar structure projects to be the new growth opportunities with 10-15% of revenues contributing to the engg. business segment for FY19
- As per the management it has received new enquires for monopoles with State utilities and PGCIL showing interest.
- The management seeing new orders from Nepal and Bangladesh
- The management sees the biding pipeline line to be strong with regular project flows with both fixed and variable order contracts
- Currently, the export order is 15% of the total order book and expects to complete one Latin American order in Q4FY18.
- JV with Metzerplas an Israeli company for manufacturing drip irrigation solutions to be operationalised after Sept'18.
- PVC business revenues for Q4FY18 continues to see stagnancy with price undercutting and growth challenges
- Guwahati plant currently running at ~90% of capacity with the fittings manufacturing plant completely operational.
- The capex guidance for FY18 remains intact at ₹ 850mn of which ₹ 300mn would be for the PVC segment.
- For FY18, the revenue growth guidance to be 20% YoY with EBITDA margins at 13%

Exhibit 1: Order Inflow for Q3FY18



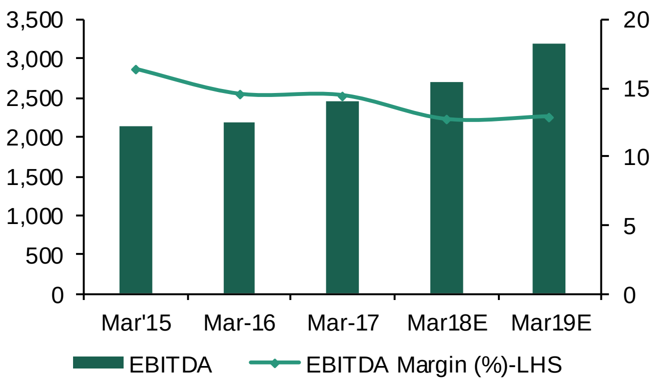
Source: Company, DART

Exhibit 2: Net Sales (₹ mn)



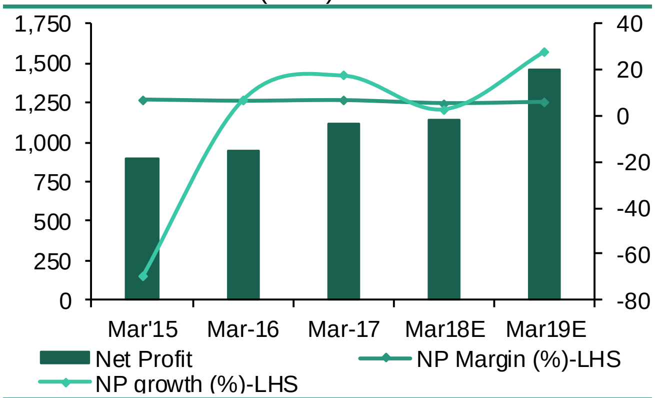
Source: Company, DART

Exhibit 3: EBITDA (₹ mn)



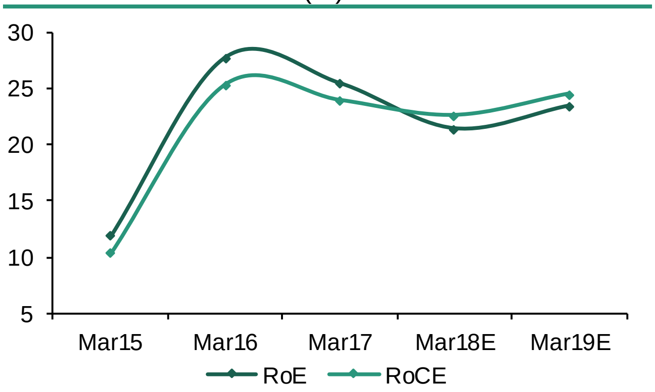
Source: Company, DART

Exhibit 4: Net Profit (₹ mn)



Source: Company, DART

Exhibit 5: RoE & RoCE (%)



Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Net Sales	**17,030**	**21,196**	**24,841**	**29,281**
Total Expenditure	14,569	18,504	21,636	25,387
Cost of materials consumed	10,908	13,989	16,395	19,326
Employee Benefits Exp.	732	1,017	1,168	1,376
Other Expenses	2,930	3,497	4,074	4,685
Other Income	31	40	80	40
EBIDTA (Excl. OI)	**2,460**	**2,692**	**3,204**	**3,894**
EBIDTA (Incl. OI)	**2,492**	**2,732**	**3,284**	**3,934**
Interest	611	563	564	536
Depreciation	315	460	535	623
Profit Before Tax	1,565	1,709	2,185	2,776
Tax	450	629	822	1,110
Net Profit	**1,115**	**1,145**	**1,464**	**1,887**

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	102	102	102	102
Other Reserves	4,841	5,786	7,050	8,735
Net Worth	**4,943**	**5,889**	**7,152**	**8,838**
Secured Loans	1,758	1,800	2,000	2,200
Unsecured Loans	2,400	2,700	2,900	3,100
Loan Funds	**4,159**	**4,500**	**4,900**	**5,300**
Deferred Tax Liability	391	391	391	391
Total Capital Employed	**9,492**	**10,779**	**12,443**	**14,529**
Applications of Funds				
Gross Block	5,959	6,809	7,459	8,109
Less: Accumulated Depreciation	1,317	1,776	2,311	2,934
Net Block	**4,642**	**5,033**	**5,148**	**5,175**
Capital Work in Progress	144	144	144	144
Investments				
Current Assets, Loans & Advances				
Inventories	3,682	4,442	5,322	6,642
Sundry Debtors	3,730	4,646	5,581	6,819
Cash and Bank Balance	249	323	439	528
Loans and Advances	863	1,161	1,633	2,086
sub total	8,524	10,572	12,975	16,075
Less: Current Liabilities & Provisions				
Current Liabilities	3,791	4,936	5,785	6,819
Provisions	27	33	39	46
sub total	3,817	4,969	5,824	6,865
Net Current Assets	4,707	5,603	7,151	9,210
Total Assets	**9,493**	**10,779**	**12,443**	**14,529**

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	1,565	1,709	2,185	2,776
Depreciation & w.o.	315	460	535	623
Net Interest Exp.	611	563	564	536
Direct taxes paid	(450)	(629)	(822)	(1,110)
Change in Working Capital	(573)	(823)	(1,432)	(1,970)
(A) CF from Opt. Activities	**1,469**	**1,280**	**1,031**	**854**
Capex	(534)	(390)	(115)	(27)
Free Cash Flow	**935**	**890**	**916**	**827**
(B) CF from Invt. Activities	**(534)**	**(390)**	**(115)**	**(27)**
Inc./(Dec.) in Debt	(346)	341	400	400
Interest Exp. Net.	(611)	(563)	(564)	(536)
(C) CF from Financing	**(957)**	**(221)**	**(164)**	**(136)**
Net Change in Cash	(22)	668	752	691
Opening Cash balances	498	249	323	439
Closing Cash balances	249	323	439	528

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	14.4	12.7	12.9	13.3
Interest / Sales	3.6	2.7	2.3	1.8
Net Profit Margin	28.8	36.8	37.6	40.0
(B) As Percentage of Net Sales				
Operating Expenses	64.1	66.0	66.0	66.0
Employee Benefits Expense	4.3	4.8	4.7	4.7
Other Expenses	17.2	16.5	16.4	16.0
(C) Measures of Financial Status				
Debt / Equity (x)	0.8	0.8	0.7	0.6
Interest Coverage (x)	4.1	4.9	5.8	7.3
Average Cost of Debt (%)	14.1	13.0	12.0	10.5
Debtors Period (days)	80	80	82	85
Closing stock (days)	78.9	76.5	78.2	82.8
Inventory Turnover Ratio (x)	4.6	4.8	4.7	4.4
WC Turnover (x)	3.6	3.8	3.5	3.2
Non-Cash WC (₹ Mn)	4,457	5,280	6,712	8,683
(D) Measures of Investment				
EPS (₹) (excl EO)	10.9	11.2	14.3	18.4
CEPS (₹)	14.0	15.7	19.5	24.5
Profit Ploughback (%)	100.0	100.0	100.0	100.0
Book Value (₹)	48.3	57.6	69.9	86.4
RoANW (%)	25.5	21.1	22.5	23.6
RoACE (%)	24.0	22.4	23.7	24.6
RoAIC (%)	25.0	23.1	24.5	25.5
(E) Valuation Ratios				
CMP (₹)	237	237	237	237
P/E (x)	21.7	21.2	16.6	12.9
Market Cap. (₹ Mn)	24,249	24,249	24,249	24,249
MCap/ Sales (x)	1.4	1.1	1.0	0.8
EV (₹ Mn)	28,158	28,426	28,710	29,021
EV/Sales (x)	1.7	1.3	1.2	1.0
EV/EBDITA (x)	11.4	10.6	9.0	7.5
P/BV (x)	4.9	4.1	3.4	2.7
FCFF Yield (%)	-0.1	2.8	3.1	2.9

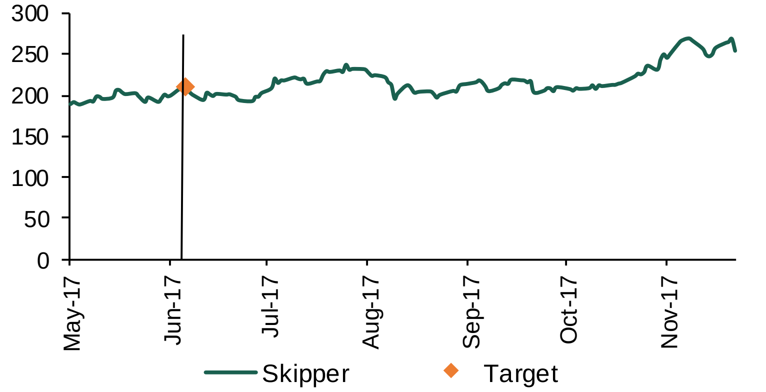
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Jun'17	Reduce	210	202
Nov'17	Sell	241	263

** As on Recommendation Date*

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