Skipper

Reduce

Muted growth; opportunities from new segments

For Q4FY18, the revenue declined 3% YoY to ₹ 5928mn, grew 4.7% QoQ from ₹ 5,664mn. EBITDA grew 8% YoY to ₹ 1085mn, grew ~47% QoQ from ₹ 740mn. EBITDA margin grew 177bps YoY to 18.3%, grew 524bps QoQ from 13.1%.PAT declined 15% YoY to ₹ 493mn, grew 69% QoQ from ₹ 292mn.Revenue from Engg Products business declined 2.5% YoY to ₹ 4,923mn YoY and remained flat QoQ while the revenue from Polymer business remained flat YoY at ₹ 748mn, grew 38.6% QoQ from ₹ 539.9mn. During FY18 there was an increase in the capacity of engineered products by 35,000MT & visible signs of opportunities from renewable and solar projects.

Rupee devaluation to help garner further export orders

As per the management the recent rupee devaluation will make the business more competitive in the export markets and will bring more opportunities. The order Inflow during Q4FY18 was at ₹ 6,200mn for engineering products supply from PGCIL, SEB's, telecom and solar companies and for various supplies across Europe & South-east Asia. Also received recognition to do projects from Mexican and Canadian authorities. The order book as on Mar'18 was at ₹ 26.3bn with domestic orders (PGCIL-44% and SEBs-44%) at 88% of total value while the rest as exports

Focus on targeting railway electrification projects

During the quarter received core approval from railways and has plans to focus on rail electrification and to manufacture and supply various types of overhead wiring support structure. Railways has lined up projects worth in ₹ 400bn to connect capital cities of five North-eastern states and areas bordering those states and being logistically well placed in this region it has plans to target certain projects.

View- Likely new orders from SEB's with PGCIL participating as consultant, opportunities in rail electrification & solar structures and with rupee devaluation helping export orders, the outlook looks bright, but the PVC segment faces competition from established players along with pricing pressure. Hence, we continue to maintain ***Reduce*** rating downgrading the TP to ₹ 196 (P/E 13x FY20E).

Q4FY18 Result (₹ Mn)

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Operating Income	**5,929**	**6,106**	**(2.9)**	**5,664**	**4.7**
Material Cost	4,185	3,283	9.5	3,693	13.3
Changes in inventories	(769)	(56)	1,263.4	210	(466.7)
Staff Expenses	237	206	15.1	236	0.7
Other Expenses	1,190	1,123	5.9	786	51.4
EBITDA	**1,086**	**1,010**	**7.5**	**741**	**46.6**
Other Income	8	8	(5.4)	3	137.9
Depreciation	114	100	13.2	118	(3.5)
Interest	239	136	76.0	176	35.8
Tax	247	201	23.3	158	156.3
Net Profit	**494**	**582**	**(15.1)**	**292**	**69.0**
			bps		bps
Material Cost (%)	57.6	61.7	(407)	68.9	(1,127)
Staff Cost (%)	4.0	3.4	63	4.2	(16)
Other Expenditure (%)	20.1	18.4	168	13.9	620
EBITDA (%)	18.3	16.5	177	13.1	524
NPM (%)	8.3	9.5	(120)	5.2	317

CMP	₹ 180
Target / Upside	₹ 196/9%
BSE Sensex	34,681
NSE Nifty	10,536
Scrip Details	
Equity / FV	₹ 103mn/ ₹1/-
Market Cap	₹ 18bn
	USD 0.26bn
52-week High/Low	₹ 293/173
Avg. Volume (no)	113,270
NSE Symbol	SKIPPER
Bloomberg Code	SKIPPER IN
Shareholding Pattern Mar'18(%)	
Promoters	70.2
MF/Banks/FIs	11.0
FIIs	6.2
Public / Others	12.7

Valuation (x)

	FY18	FY19E	FY20E
P/E	15.7	15.1	12.3
EV/EBITDA	7.6	7.2	6.3
ROE	20.1	17.8	18.6
ROCE	23.9	22.4	23.0

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	21,076	24,328	28,413
EBITDA	3,025	3,138	3,665
PAT	1,178	1,224	1,495
EPS	11.5	11.9	14.6

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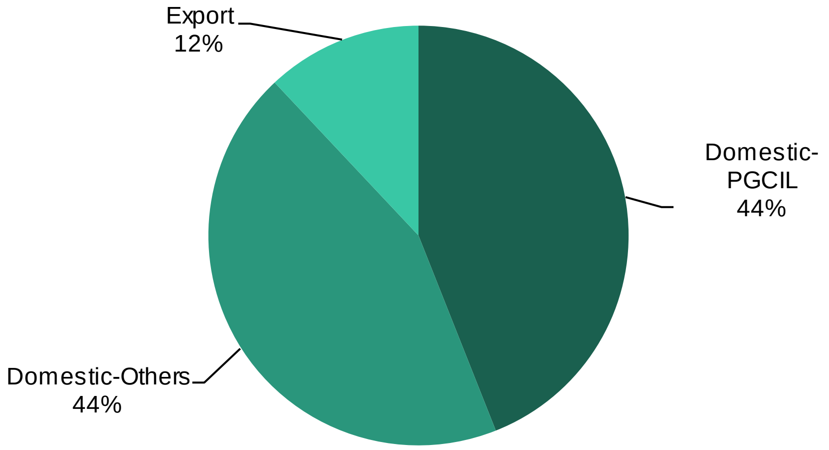
PVC segment seeing visible demand from construction and agriculture

During FY18 the PVC business faced uncertainty and competition from unorganised players, but the management is presently seeing visible orders from agriculture and construction sector. With capacity of 51,000 tonnes p.a. and capacity utilisation of 51% the management expects likely growth of 35-40% YoY with improvement in utilisation and demand. Within PVC business, the management focus is on improving the plumbing-fittings share from current 35%

The capex guidance for FY19 remains intact at ₹ 750mn of which ₹ 200mn would be for the PVC segment.

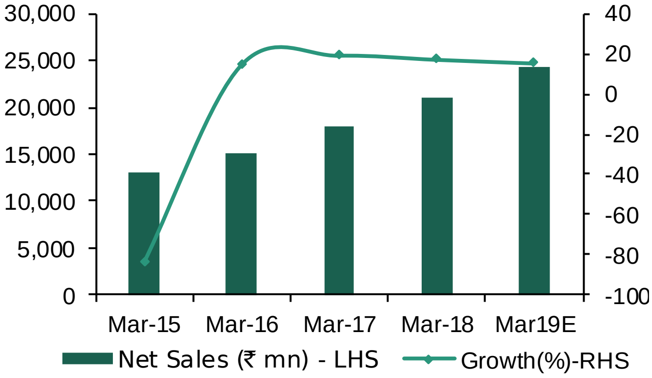
For FY19, the revenue growth guidance to be 20% YoY with EBITDA margins at 8-9%

Exhibit 1: Order Inflow for Q4FY18



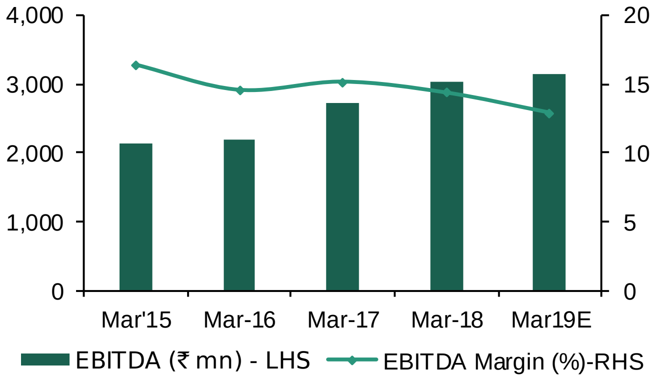
Source: Company, DART

Exhibit 2: Net Sales (₹ mn)



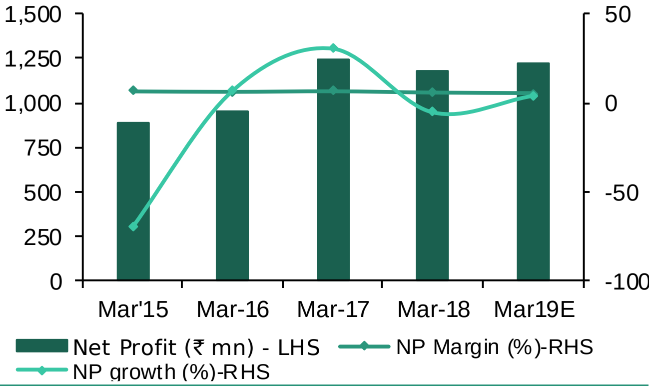
Source: Company, DART

Exhibit 3: EBITDA (₹ mn)



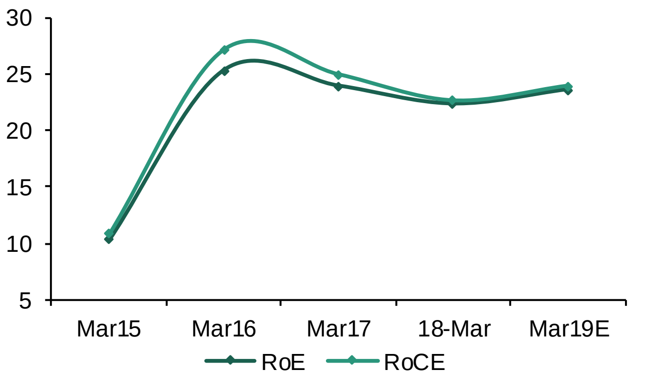
Source: Company, DART

Exhibit 4: Net Profit (₹ mn)



Source: Company, DART

Exhibit 5: RoE & RoCE (%)



Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Net Sales	**17,972**	**21,076**	**24,328**	**28,413**
Total Expenditure	15,250	18,051	21,190	24,748
Cost of materials consumed	12,234	13,585	16,057	18,753
Employee Benefits Exp.	745	934	1,119	1,307
Other Expenses	2,271	3,532	4,014	4,688
Other Income	32	22	80	40
EBIDTA (Excl. OI)	**2,722**	**3,025**	**3,138**	**3,665**
EBIDTA (Incl. OI)	**2,754**	**3,047**	**3,218**	**3,705**
Interest	671	784	811	846
Depreciation	316	459	552	651
Profit Before Tax	1,767	1,804	1,855	2,209
Tax	387	626	622	725
Net Profit	**1,242**	**1,178**	**1,224**	**1,495**

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	102	103	103	103
Other Reserves	5,219	6,270	7,294	8,588
Net Worth	**5,321**	**6,373**	**7,396**	**8,691**
Secured Loans	1,758	1,667	1,500	1,800
Unsecured Loans	2,400	2,947	2,900	3,200
Loan Funds	**4,159**	**4,613**	**4,400**	**5,000**
Deferred Tax Liability	626	538	538	538
Total Capital Employed	**10,105**	**11,524**	**12,335**	**14,229**
Applications of Funds				
Gross Block	5,959	6,984	7,734	8,534
Less: Accumulated Dep.	1,317	1,776	2,328	2,978
Net Block	**4,642**	**5,209**	**5,407**	**5,556**
Capital Work in Progress	144	16	16	16
Investments	164	38	88	138
Current Assets, Loans & Advances				
Inventories	3,682	5,623	5,825	6,660
Sundry Debtors	3,730	5,164	5,599	7,162
Cash and Bank Balance	249	176	267	381
Loans and Advances	863	1,210	1,466	1,713
sub total	8,524	12,173	13,157	15,916
Less: Current Liabilities & Provisions				
Current Liabilities	3,364	5,909	6,332	7,395
Provisions	5	1	1	2
sub total	3,369	5,911	6,333	7,397
Net Current Assets	5,155	6,262	6,824	8,519
Total Assets	**10,105**	**11,525**	**12,335**	**14,229**

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Profit before tax	1,767	1,804	1,855	2,209
Depreciation & w.o.	316	459	552	651
Net Interest Exp.	671	784	811	846
Direct taxes paid	(387)	(626)	(622)	(725)
Change in Working Capital	(1,021)	(1,181)	(471)	(1,581)
(A) CF from Opt. Activities	**1,346**	**1,240**	**2,126**	**1,400**
Capex	(847)	(898)	(750)	(800)
Free Cash Flow	**499**	**343**	**1,376**	**600**
(B) CF from Invt. Activities	**(1,011)**	**(772)**	**(800)**	**(850)**
Inc./(Dec.) in Debt	(346)	455	(213)	600
Interest Exp. Net.	(671)	(784)	(811)	(846)
Dividend Paid (Incl. Tax)	(199)	(201)	(201)	(201)
(C) CF from Financing	**(1,219)**	**(528)**	**(1,225)**	**(447)**
Net Change in Cash	(885)	(60)	100	103
Opening Cash balances	498	249	176	267
Closing Cash balances	249	176	267	381

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	15.1	14.4	12.9	12.9
Interest / Sales	3.7	3.7	3.3	3.0
Tax/ PBT	21.9	34.7	33.5	32.8
Net Profit Margin	6.9	5.6	5.0	5.3
(B) As Percentage of Net Sales				
Operating Expenses	68.1	64.5	66.0	66.0
Employee Benefits Expense	4.1	4.4	4.6	4.6
Other Expenses	12.6	16.8	16.5	16.5
(C) Measures of Financial Status				
Debt / Equity (x)	0.8	0.7	0.6	0.6
Interest Coverage (x)	4.1	3.9	4.0	4.4
Average Cost of Debt (%)	15.5	17.9	18.0	18.0
Debtors Period (days)	76	89	84	92
Closing stock (days)	74.8	97.4	87.4	85.6
Inventory Turnover Ratio (x)	4.9	3.7	4.2	4.3
WC Turnover (x)	3.5	3.4	3.6	3.3
Non-Cash WC (₹ Mn)	4,906	6,086	6,557	8,138
(D) Measures of Investment				
EPS (₹) (excl EO)	12.1	11.5	11.9	14.6
CEPS (₹)	15.2	16.0	17.3	20.9
DPS (₹)	1.7	1.7	1.7	1.7
Profit Ploughback (%)	86.1	85.6	86.0	88.6
Book Value (₹)	52.0	62.1	72.1	84.7
RoANW (%)	27.2	20.1	17.8	18.6
RoACE (%)	26.0	23.9	22.4	23.0
RoAIC (%)	27.1	24.4	22.8	23.6
(E) Valuation Ratios				
CMP (₹)	180	180	180	180
P/E (x)	14.8	15.7	15.1	12.3
Market Cap. (₹ Mn)	18,414	18,464	18,464	18,464
MCap/ Sales (x)	1.0	0.9	0.8	0.6
EV (₹ Mn)	22,323	22,902	22,598	23,083
EV/Sales (x)	1.2	1.1	0.9	0.8
EV/EBDITA (x)	8.2	7.6	7.2	6.3
P/BV (x)	3.5	2.9	2.5	2.1
FCFF Yield (%)	-2.8	0.1	1.9	1.9
Dividend Yield (%)	0.9	0.9	0.9	0.9

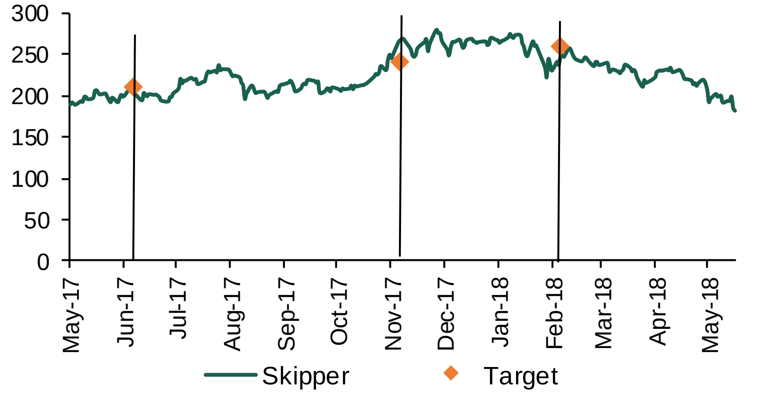
E – Estimates

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
Feb'18	Reduce	258	237

** As on Recommendation Date*

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