INSTITUTIONAL RESEARCH

RESULTS REVIEW 3QFY18 | 08 FEB 2018

Skipper

NEUTRAL

INDUSTRY	CAPITAL GOODS
CMP *(As on 8 Feb 2018)*	Rs 248
Target Price	Rs 267
Nifty	10,577
Sensex	34,408

KEY STOCK DATA

Bloomberg	SKIPPER IN
No. of Shares (mn)	103
MCap (Rs bn) / ($ mn)	26/399
6m avg traded value (Rs mn)	68

STOCK PERFORMANCE (%)

52 Week high / low			Rs 293/140
	3M	6M	12M
Absolute (%)	(7.2)	15.1	60.6
Relative (%)	(10.8)	7.7	39.0

SHAREHOLDING PATTERN (%)

Promoters	70.35
FIs & Local MFs	9.82
FPIs	6.23
Public & Others	13.6

Source : BSE

Sujit Jain
sujit.jain@hdfcsec.com
+91-22-6171-7314

Basanth Patil
basanth.patil@hdfcsec.com
+91-22-6171-7319

Strong execution in Engineering Products

Skipper's sales grew 33/10% YoY/QoQ to Rs 5.7bn vs our expectation of 25% YoY growth, aided by a 38% YoY rise in Engineering Products revenues to Rs 4.86bn. The 33% sales growth came on the back of 23/10% volumes/pricing growth. A 203 bps rise in raw material cost impacted gross margins, which fell to 31.1%. With a 99/40bps fall in other expenses (at 13.9% of sales)/staff costs (at 4.2% of sales), EBITDAM fell 64bps to 13.1% (in line with our estimates). Net profit rose 31% YoY to Rs 292mn, a result lower interest cost (down 7% YoY to Rs 176mn).

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. Maintain a NEUTRAL with TP of Rs 267/share.

Highlights of the quarter

- Order inflows stood at Rs 5.25bn, resulting in an order backlog of Rs 25.3bn (+25% YoY), providing comfort to our revenue estimates for FY19/20E. The order flows came from PGCIL, Telengana (Rs 1.5bn) and Tamil Nadu (Rs 90mn) Transcos and Reliance Jio (Rs 860mn). Exports form ~15% of the order book.
- Polymer business revenues rose 16% against management guidance of ~35% for 2H, owing to GST transition issues. The mgt expects the GST impact to get mitigated in the ensuing quarters.

  Skipper is forming a JV with Metzerplas, 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 is underway, the company plans to tie up with developers as against bidding for EPC contracts themselves.
- **Near term view:** We would await better performance in the Polymer business. **Neutral.**

Financial Summary: Standalone

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16*	FY17*	FY18E	FY19E	FY20E
Net Sales	5,664	4,251	33	5,156	10	14,881	16,836	21,218	23,740	27,094
EBITDA	741	583	27	683	8	2,132	2,149	2,785	3,229	3,733
APAT	292	222	31	232	26	911	894	1,083	1,403	1,805
Diluted EPS (Rs)	2.9	2.2	31	2.3	26	8.9	8.7	10.6	13.7	17.6
P/E (x)						27.9	28.4	23.5	18.1	14.1
EV / EBITDA (x)						13.9	13.7	10.9	9.1	7.8
RoE (%)						26.6	20.4	20.1	21.8	22.9

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

Revenue grew 33% YoY led by strong execution in the Engineering segment (+38% YoY).

A 203 bps rise in raw material cost impacted gross margins, which fell to 31.1% vs 33.1% YoY.

Quarterly Financials Snapshot: Standalone

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Net Sales	**5,664**	**4,251**	***33***	**5,156**	***10***
Material Expenses	3,902	2,843		3,458	
Employee Expenses	236	194		251	
Other Operating Expenses	786	632		765	
EBITDA	**741**	**583**	***27***	**683**	***8***
Depreciation	118	76		121	
Other Income	3	8		3	
Interest Cost	176	190		200	
PBT	**450**	**325**	***38***	**365**	***23***
Tax	158	103		133	
RPAT	**292**	**222**	***31***	**232**	***26***
EO Items (Adj For Tax)	-	-		-	
APAT	**292**	**222**	***31***	**232**	***26***

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

	3QFY18	3QFY17	YoY (bps)	2QFY18	QoQ (bps)
Material Expenses % Net Sales	68.9	66.9	*203*	67.1	*184*
Employee Expenses % Net Sales	4.2	4.6	*(40)*	4.9	*(72)*
Other Operating Expenses % Net Sales	13.9	14.9	*(99)*	14.8	*(96)*
EBITDA Margin (%)	13.1	13.7	*(64)*	13.2	*(17)*
Tax Rate (%)	35.1	31.7	*345*	36.4	*(124)*
APAT Margin (%)	5.2	5.2	*(7)*	4.5	*65*

Source: Company, HDFC sec Inst Research

Polymer business revenues rose 16% against management guidance of ~35% for 2H, owing to GST transition issues.

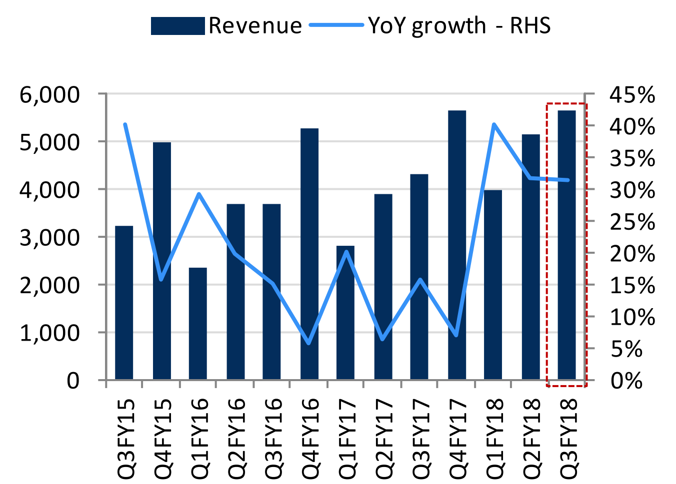
Order inflows stood at Rs 5.25bn, resulting in an order backlog of Rs 25.3bn (+25% YoY).

Segmental Quarterly Performance: Standalone

Rs mn	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Segmental Revenue					
Infrastructure Projects	261	263	*(1)*	95	*176*
Polymer Products	540	466	*16*	428	*26*
Engineering Products	4,863	3,523	*38*	4,634	*5*
Total	**5,664**	**4,251**	***33***	**5,156**	***10***
EBIT					
Infrastructure Projects	32	37	*(13)*	11	*185*
Polymer Products	36	32	*14*	28	*28*
Engineering Products	639	481	*33*	606	*5*
EBIT Margins (%)					
Infrastructure Projects	12.3	14.0	*-173*	11.9	*38*
Polymer Products	6.7	6.8	*-10*	6.6	*8*
Engineering Products	13.1	13.7	*-53*	13.1	*6*

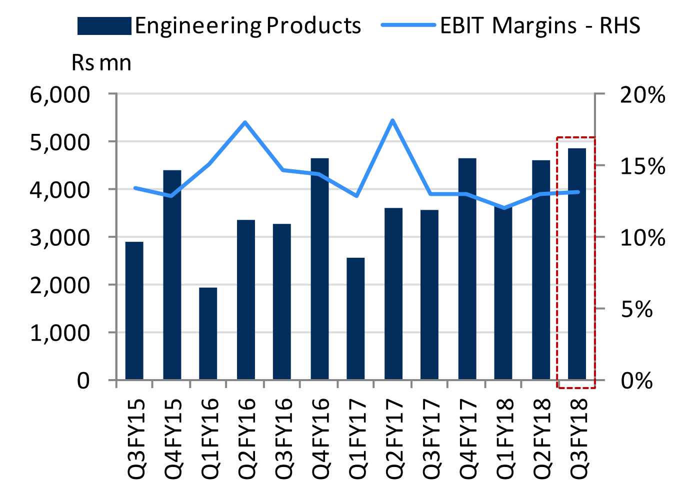
Source: Company, HDFC sec Inst Research

Revenue Trajectory



Source: Company, HDFC sec Inst Research

Engineering Projects: Revenue And EBIT Margin

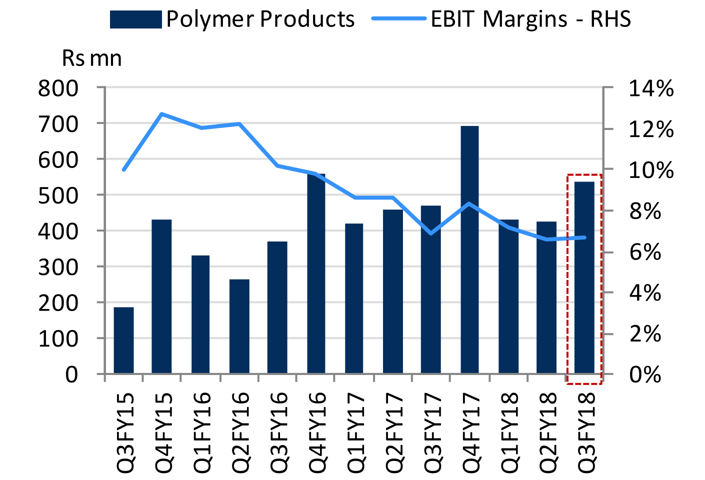


Source: Company, HDFC sec Inst Research

With GST implementation, 9M Polymer revenues growth was muted at 4% YoY. However, the segment is likely to benefit with shift from unorganised to organised sector.

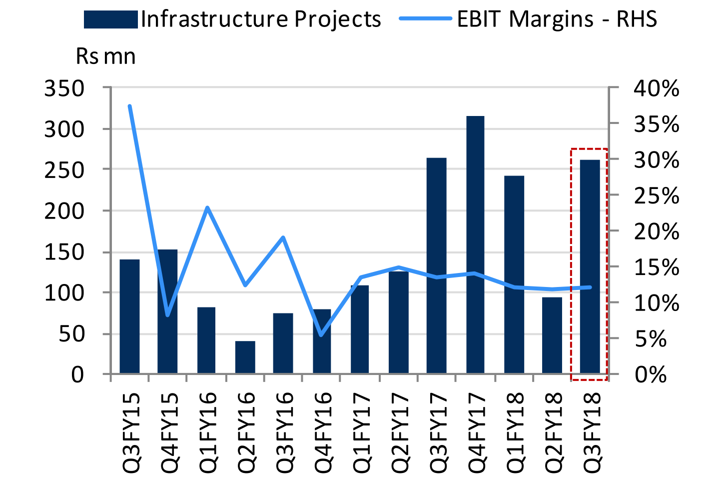
Skipper has maintained the FY18 revenue growth guidance of 20%.

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	17,993	19,401	21,040
YoY growth	*12.7%*	*7.4%*	*26.4%*	*7.8%*	*8.4%*
Infrastructure Projects	277	813	976	1,268	1,902
YoY growth	*-40.2%*	*193.9%*	*20.0%*	*30.0%*	*50.0%*
Polymer Products	1,525	1,980	2,249	3,070	4,151
YoY growth	*70.0%*	*29.8%*	*13.6%*	*36.5%*	*35.2%*
Total	**15,062**	**17,030**	**21,218**	**23,740**	**27,094**
YoY growth	*14.7%*	*13.1%*	*24.6%*	*11.9%*	*14.1%*
Polymers- Sales quantity (MT)	20,107	25,134	26,390	34,308	44,600
Polymers- Realization (Rs/ MT)	75,864	81,175	85,233	89,495	93,075
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	917	975	700	600	600
Net Debt	4,184	4,129	4,894	4,011	3,620

SOTP Valuation

Business	Method	Dec-19 APAT	Multiple (x)	Valuation	VPS
Engineering Products	P/E multiple	1,407	15	21,107	206
Polymer Products	P/E multiple	181	25	4,531	44
Infrastructure Projects	P/E multiple	116	15	1,743	17
SOTP					**267**

Source: Company, HDFC sec Inst Research

Income Statement: Standalone

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	**14,881**	**16,836**	**21,218**	**23,740**	**27,094**
Growth (%)	***17.1***	***13.1***	***26.0***	***11.9***	***14.1***
Material Expenses	9,485	10,908	13,898	15,431	17,611
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**	**18,432**	**20,511**	**23,361**
EBIDTA	**2,132**	**2,149**	**2,785**	**3,229**	**3,733**
EBIDTA %	***14.3***	***12.8***	***13.1***	***13.6***	***13.8***
EBIDTA Growth %	***24.6***	***0.8***	***29.6***	***15.9***	***15.6***
Depreciation	241	315	440	449	457
EBIT	**1,891**	**1,834**	**2,346**	**2,780**	**3,276**
Other Income (Including EO Items)	112	342	19	23	29
Interest	570	611	709	658	545
PBT	**1,433**	**1,565**	**1,656**	**2,145**	**2,760**
Tax (Incl Deferred)	482	450	573	742	955
RPAT	**951**	**1,115**	**1,083**	**1,403**	**1,805**
EO (Loss) / Profit (Net Of Tax)	40	222	-	-	-
APAT	**911**	**894**	**1,083**	**1,403**	**1,805**
APAT Growth (%)	***50.8***	***(1.9)***	***21.2***	***29.6***	***28.6***
Adjusted EPS (Rs)	**8.9**	**8.7**	**10.6**	**13.7**	**17.6**
EPS Growth (%)	***50.8***	***(1.9)***	***21.2***	***29.6***	***28.6***

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	5,739	6,957	8,577
Total Shareholders Funds	**3,815**	**4,943**	**5,841**	**7,059**	**8,679**
Long Term Debt	1,983	1,758	2,550	2,250	2,000
Short Term Debt	2,699	2,620	2,520	2,220	1,920
Total Debt	**4,682**	**4,378**	**5,070**	**4,470**	**3,920**
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**	**11,316**	**11,936**	**13,008**
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	4,650	4,683	5,567
Debtors	3,724	3,730	4,941	5,529	6,310
Other Current Assets	907	713	872	976	1,113
Cash & equivalents	498	249	176	459	300
Total Current Assets	**7,629**	**8,374**	**10,640**	**11,646**	**13,290**
Creditors	2,884	3,571	4,360	4,878	5,567
Other Current Liabilities & Provns	193	5	160	180	205
Total Current Liabilities	**3,077**	**3,575**	**4,520**	**5,058**	**5,772**
Net Current Assets	**4,552**	**4,798**	**6,119**	**6,588**	**7,518**
TOTAL APPLICATION OF FUNDS	**8,825**	**9,734**	**11,316**	**11,936**	**13,008**

Source: Company, HDFC Sec Inst Research

Cash Flow Statement: Standalone

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,433	1,565	1,656	2,145	2,760
Non-operating & EO items	(112)	(342)	(19)	(23)	(29)
Interest Expenses	570	611	709	658	545
Depreciation	241	315	440	449	457
Working capital change	(1,047)	(487)	(1,402)	(185)	(1,086)
Tax Paid	(482)	(450)	(573)	(742)	(955)
Other operating items	28	259	-	-	-
OPERATING CASH FLOW (a)	**631**	**1,472**	**810**	**2,302**	**1,692**
Capex	(917)	(975)	(700)	(600)	(600)
Free Cash Flow	(286)	496	110	1,702	1,092
Investments	-	-	-	-	-
Non-operating Income	112	342	19	23	29
INVESTING CASH FLOW (b)	**(805)**	**(633)**	**(681)**	**(577)**	**(571)**
Debt Issuance/(Repaid)	853	(304)	692	(600)	(550)
Interest	(570)	(611)	(709)	(658)	(545)
FCFE	(2)	(418)	93	444	(4)
Share Capital Issuance	-	-	-	-	-
Dividend	(172)	(172)	(185)	(185)	(185)
FINANCING CASH FLOW (c)	**111**	**(1,087)**	**(202)**	**(1,443)**	**(1,280)**
NET CASH FLOW (a+b+c)	**(63)**	**(248)**	**(73)**	**283**	**(159)**
Closing Cash & Equivalents	**498**	**250**	**176**	**459**	**300**

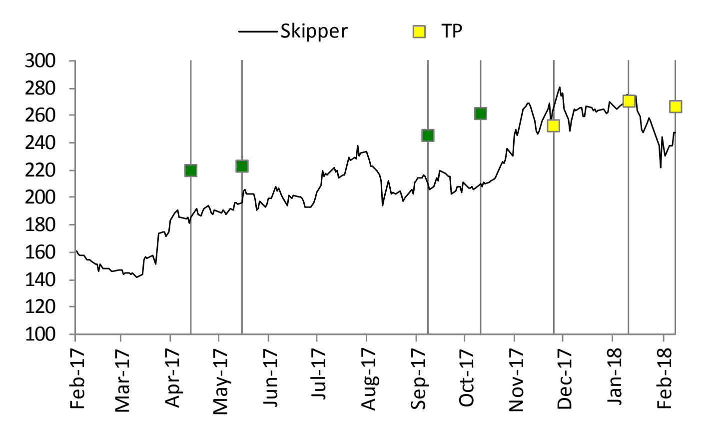
Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY %					
GPM	36.3	35.2	34.5	35.0	35.0
EBITDA margin	14.3	12.8	13.1	13.6	13.8
APAT margin	6.1	5.3	5.1	5.9	6.7
RoE	26.6	20.4	20.1	21.8	22.9
Core RoCE (RoIC)	16.9	14.7	14.9	16.1	17.7
RoCE	16.2	14.3	14.7	15.8	17.3
EFFICIENCY					
Tax Rate (%)	33.6	28.7	34.6	34.6	34.6
Fixed Asset Turnover (x)	3.5	3.4	4.1	4.4	4.9
Inventory (days)	*61.3*	*79.8*	*80.0*	*72.0*	*75.0*
Debtors (days)	*91.3*	*80.9*	*85.0*	*85.0*	*85.0*
Other Current Assets (days)	*22.3*	*15.5*	*15.0*	*15.0*	*15.0*
Payables (days)	*70.7*	*77.4*	*75.0*	*75.0*	*75.0*
Other Current Liab & Provns (days)	*4.7*	*0.1*	*2.8*	*2.8*	*2.8*
Cash Conversion Cycle (days)	*99.4*	*98.6*	*102.2*	*94.2*	*97.2*
Debt/EBITDA (x)	2.2	2.0	1.8	1.4	1.1
Net D/E (x)	1.1	0.8	0.8	0.6	0.4
Interest Coverage (x)	3.3	3.0	3.3	4.2	6.0
PER SHARE DATA (Rs)					
EPS	8.9	8.7	10.6	13.7	17.6
CEPS	11.3	11.8	14.9	18.1	22.1
Dividend	1.4	1.4	1.5	1.5	1.5
Book Value	37.3	48.3	57.0	68.9	84.8
VALUATION					
P/E (x)	27.9	28.4	23.5	18.1	14.1
P/BV (x)	6.7	5.1	4.3	3.6	2.9
EV/EBITDA (x)	13.9	13.7	10.9	9.1	7.8
EV/Revenues (x)	2.0	1.8	1.4	1.2	1.1
OCF/EV (%)	2.1	5.0	2.7	7.8	5.8
FCF/EV (%)	(1.0)	1.7	0.4	5.8	3.8
FCFE/Mkt Cap (%)	(0.0)	(1.6)	0.4	1.7	(0.0)
Dividend Yield (%)	0.6	0.6	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
10-Jan-18	276	NEU	271
8-Feb-18	248	NEU	267

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

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Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel,
Mumbai - 400 013
Board: +91-22-6171 7330
www.hdfcsec.com