

# Skipper - BUY

## Muted show

Skipper reported weak set of results led by a miss in execution in all its segments. The core engineering business segment saw muted growth of 5.9% yoy (net of excise) in Q4 FY18. We believe this is largely due to lower carry forward order book in FY18 and the company registering strong growth in 9M FY19. The company saw a robust inflow of Rs.6.2bn in Q4 FY18. With declining PGCIL orders, company has been focusing on sectors like railways, telecom and solar. In the T&D space, the management expects growth to be driven by SEBs and private players. Order book stood at Rs.26bn (1.5x FY18 revenues), with PGCIL accounting for 44%, SEB's and other domestic customers (40%) and rest is exports. It increased its engineering segment capacity by 35,000tpa to 265,000tpa during the year. The company has managed to keep its utilization levels in the engineering segment close to 90% in FY18. The company got qualified for exports to Canada and North America. It currently exports to 15-20 countries and targets to enter newer geographies going ahead.

Polymer business growth remained subdued at 9.3% yoy (net of excise) as company faced intense competition from organized players and it is focused more on maintaining margins rather increasing its revenue. Company sees increased demand from agriculture and construction space for polymer. Skipper have hired Vector consultancy for polymer business, which will implement Theory of Constraints (ToC) that will help in streamlining its supply chain and sales and distribution network.

Management has restricted its FY19 revenue growth guidance to 15% and would be maintaining 13-14% overall EBITDA margins. It has guided 40% growth for its polymer business led by low base, ToC and waning competition as market expands. Growth uncertainty in polymer business remains as company is in process of implementing ToC. We have toned down our estimates for FY19/FY20 factoring the guidance given by the company. Post the sharp correction in the stock valuations are attractive at 10.9x FY20 P/E. We maintain our Buy rating with revised TP of Rs.250.

Analyst: Tarang Bhanushali, Rahul Jain



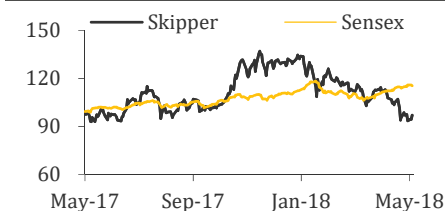
**CMP (Rs) 184**      **12-mts Target (Rs) 250**      **Upside 36%**

**Stock data** (As on May 17, 2018)

**Sector: Capital goods**

Sensex:	35,149
52 Week h/l (Rs):	293 / 173
Market cap (Rs mn) :	18,865
Enterprise value (Rs mn):	22,720
6m Avg t/o (Rs mn):	5.5
FV (Re):	1
Div yield (%):	0.8
Bloomberg code:	SKIPPER IB
BSE code:	538562
NSE code:	SKIPPER

### Stock performance



### Shareholding pattern (%)

Promoter	70.2
FII+DII	17.1
Others	12.7

**Figure 1: Result table**

Y/e 31 Mar (Rs m)	Q4 FY18	Q4 FY17	% yoy	Q3 FY18	% qoq
<b>Net sales</b>	<b>5,929</b>	<b>5,644</b>	<b>5.0</b>	<b>5,664</b>	<b>4.7</b>
Material costs	(3,416)	(3,767)	(9.3)	(3,902)	(12.5)
Personnel costs	(237)	(206)	15.1	(236)	0.7
Other overheads	(1,190)	(661)	79.9	(786)	51.4
<b>Operating profit</b>	<b>1,086</b>	<b>1,010</b>	<b>7.5</b>	<b>741</b>	<b>46.6</b>
<b>OPM (%)</b>	<b>18.3</b>	<b>17.9</b>	<b>42 bps</b>	<b>13.1</b>	<b>524 bps</b>
Depreciation	(113)	(100)	13.2	(118)	(3.5)
Interest	(239)	(136)	76.0	(176)	35.8
Other income	8	8	(5.4)	3	137.9
<b>PBT</b>	<b>741</b>	<b>782</b>	<b>(5.3)</b>	<b>450</b>	<b>64.5</b>
Tax	(247)	(201)	23.3	(158)	56.3
<b>Reported PAT</b>	<b>493</b>	<b>582</b>	<b>(15.1)</b>	<b>292</b>	<b>69.0</b>

Source: Company, IIFL Research

## Other key highlights

- In FY18, Skipper saw 6-7% value growth due to increased raw material prices and rest was driven by volume growth.
- Engineering segment saw 245bps yoy jump in EBIT margin to 19.6% in Q4 FY18 led by execution of high margin contracts.
  - In engineering segment, it sees huge opportunity in North-East India with recent government announcement of works worth Rs.400bn.
  - Company received approval from CORE for its railway business. It is well placed to tap huge opportunity in railways with its capabilities of fabrication and galvanizing.
- Polymer business current capacity stands at 55,000 tons and is running at utilization level of 50%.
- The company has planned Rs.750mn capex for FY19, of which it would spend Rs.200mn capex in polymer business. Rest Rs.550mn in engineering segment to be spent on addition for another 30,000 tons of capacity, on maintenance and test bed capex.
- Skipper has a bid book of Rs.25bn and has win ratio of 35-40%.
- Other expenses increased 79.9% due to higher freight on account of increased exports. Also, in Q4 FY17 company saw a higher forex gain of Rs.560mn compared to Rs.270mn in Q4 FY18.
- The company has high gross working capital cycle of 180 days and net working capital cycle of 90 days.

## Figure 2: Cost Analysis

As a % of net sales	Q4 FY18	Q4 FY17	bps yoy	Q3 FY18	bps qoq
Material costs	57.6	66.7	(912)	68.9	(1,127)
Personnel Costs	4.0	3.7	35	4.2	(16)
Other overheads	20.1	11.7	835	13.9	620
<b>Total costs</b>	<b>81.7</b>	<b>82.1</b>	<b>(42)</b>	<b>86.9</b>	<b>(524)</b>

Source: Company, IIFL Research

## Figure 3: Segmental results

Y/e 31 Mar (Rs m)	Q4 FY18	Q4 FY17	bps yoy	Q3 FY18	bps qoq
<b>Revenue</b>					
Infrastructure Projects	257	309	(16.9)	261	(1.6)
Engineering Projects	4,924	5,052	(2.5)	4,863	1.2
PVC Projects	748	745	0.4	540	38.6
<b>Total revenue</b>	<b>5,929</b>	<b>6,106</b>	<b>(2.9)</b>	<b>5,664</b>	<b>4.7</b>
<b>EBIT</b>					
Infrastructure Projects	35	44	(19.8)	32	10.4
Engineering Projects	964	865	11.4	639	50.9
PVC Projects	56	58	(4.3)	36	55.1
<b>Total</b>	<b>1,055</b>	<b>967</b>	<b>9.0</b>	<b>707</b>	<b>49.2</b>
<b>EBIT Margins (%)</b>					
			<b>bps yoy</b>		<b>bps qoq</b>
Infrastructure Projects	13.8	14.3	(50)	12.3	150
Engineering Projects	19.6	17.1	245	13.1	644
PVC Projects	7.5	7.8	(36)	6.7	79
<b>Blended</b>	<b>17.8</b>	<b>15.8</b>	<b>195</b>	<b>12.5</b>	<b>531</b>

Source: Company, IIFL Research

## Figure 4: Financial summary

Y/e 31 Mar (Rs m)	FY16	FY17	FY18	FY19E	FY20E
Revenues	15,062	16,646	20,737	23,984	27,635
yoy growth (%)	18.6	10.5	24.6	15.7	15.2
OPM (%)	14.6	16.4	14.6	14.1	14.1
Reported PAT	951	1,242	1,178	1,381	1,698
yoy growth (%)	6.7	30.6	(5.2)	17.3	23.0
EPS (Rs)	9.3	12.1	11.5	13.5	16.6
P/E (x)	19.8	15.2	16.0	13.7	11.1
Price/Book (x)	4.9	3.5	3.0	2.5	2.1
EV/EBITDA (x)	10.4	8.4	7.7	6.9	5.9
Debt/Equity (x)	1.2	0.8	0.7	0.6	0.5
RoE (%)	27.8	27.2	20.1	20.0	20.8
RoCE (%)	25.4	26.0	23.9	23.8	25.3

Source: Company, IIFL Research