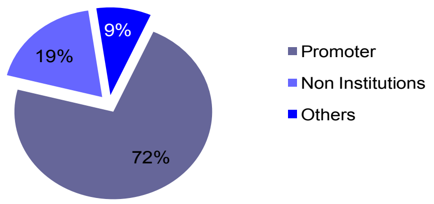
SKP Securities Ltd	September 21, 2015
	Skipper Ltd.
	Towering high…

CMP INR 140 | **Target INR 195** | **Initiating Coverage - BUY**

Key Share Data	
Face Value (INR)	1.0
Equity Capital (INR Mn)	102.3
Market Cap (INR Mn)	14,324.3
52 Week High/Low (INR)	200/63
6 months Avg. Daily Volume (BSE)	28,179
BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPER IN

Shareholding Pattern (as on 30th June 2015)



Source: Company

Key Financials (INR Million)

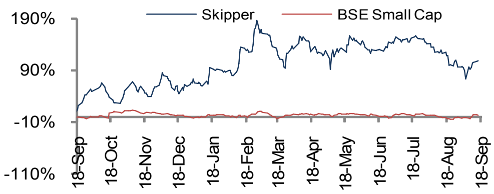
Particulars	FY14	FY15	FY16E	FY17E
Net Sales	10,415.1	13,127.8	15,842.2	19,224.2
Growth (%)	*15.7%*	*26.0%*	*20.7%*	*21.3%*
EBITDA	1,101.2	2,150.6	2,415.1	2,882.8
PAT	269.1	890.7	1,047.4	1,331.4
Growth (%)	*43.8%*	*231.0%*	*17.6%*	*27.1%*
EPS (INR)	2.7	8.7	10.2	13.0
BVPS (INR)	23.4	29.7	39.8	52.5

Key Financials Ratios

Particulars	FY14	FY15	FY16E	FY17E
P/E (x)	13.5	17.3	13.7	10.8
P/BVPS (x)	1.6	5.1	3.5	2.7
Mcap/Sales (x)	0.3	1.2	0.9	0.7
EV/EBITDA (x)	7.0	8.7	7.5	6.3
ROCE (%)	11.4%	19.9%	19.8%	20.6%
ROE (%)	7.7%	26.1%	28.4%	25.0%
EBITDA Mar (%)	10.6%	16.9%	15.7%	15.5%
PAT Mar (%)	2.6%	6.8%	6.6%	6.9%
Debt - Equity (x)	1.8	1.1	1.0	0.8

Source: Company, SKP Research

1 Yr price performance Skipper vis-à-vis BSE Small Cap



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Company Background

Skipper Limited, flagship company of Kolkata based S K Bansal Group is India's third largest transmission tower manufacturing company (after KEC and Kalpataru) and tenth largest in the world, having a production capacity of 1,75,000 MTPA. It also manufactures PVC pipes for water transportation in which it has aggressive growth plans. Skipper has three manufacturing facilities across India.

Investment Rationale

Engineering Product Business: Locational advantage; strong order book; expansion underway to encash substantial growth opportunity

- GoI plans to spend Rs. 2.6 Trillion on power Transmission & Distribution (T&D) during the 13th Five Year Plan, given its sharpened focus on cutting AT&C losses, improving T&D infrastructure and doubling power generating capacity over next seven years. Apart from Power Grid (PGCIL), which plans to place orders worth Rs 220 bn, T&D spending would be driven by projects like separate feeder for agriculture, green corridor and renewed capex by State Electricity Boards (SEBs) after a long hiatus.
- Skipper has a locational advantage vis-à-vis its peers by having its manufacturing base in Eastern India, much closer to sources of raw material, making valuable savings in transportation costs and capitalizing on incremental business opportunities in T&D as new funds trickle to projects like SAARC grid and North East India transmission projects. To capitalize on expected increase in order inflow from PGCIL, Skipper is increasing its existing capacity of transmission line towers from ~1,75,000 MTPA to ~2,00,000 MTPA by FY17. Its current order book stands at Rs 25 bn which is ~2xFY15 sales of its engineering business.

PVC Pipes Business to grow exponentially, backed by 3x capacity addition

- Skipper is in the midst of a capacity expansion plan, at an investment of ~Rs 400 mn, funded through a mix of debt and internal accruals. Its asset light strategy viz. setting up manufacturing facilities on leased premises, not only reduces capex by ~60% but also enhance return ratios. Post expansion, capacity of PVC pipes will increase from ~22,500 MTPA (including captive unit) to ~40,500 MTPA by H2FY16, registering an exponential sales growth of ~77% CAGR over the FY15-17E, backed by persisted demand from the replacement market and a gradual demand shift to branded pipes.

Margins to stabilize at ~15%+ with better operating leverage

- EBIDTA margins have improved significantly from 9.5% in FY13 to 16.9% during FY15 on account of better operating efficiencies, higher capacity utilization and steep fall in raw materials prices. Skipper is likely to maintain its margin supremacy in transmission towers business over its peers backed by its scale & size, integrated operations, logistic advantage, etc.
- Post expansion, Skipper will become a pan India PVC player, which would lead to higher overhead spending, thereby restricting EBITDA margins at level of ~15.5% in the near term.

Deleveraging Balance Sheet

- Over the last few years, Skipper has reduced its net debt from Rs 3.8 bn in FY13 to Rs 2.9 bn in FY15, bringing down D/E ratio significantly to 1.1x in FY15 from 1.9x in FY13. In spite of an expansion plan, we do not expect any substantial increase in long term debt.

Valuation

- With GoI's planned capital expenditure to improve T&D infrastructure, coupled with higher order inflow from PCGIL, strong entry barriers, efficient working capital management, prudent approach to reinforce orders, increasing PVC Pipes capacity through asset light model and enhancing return ratios, augurs well for Skipper.
- We have valued the stock on the basis of P/E of 15x of FY17E EPS and recommend a BUY with a target price of Rs 195/- (~39% upside)

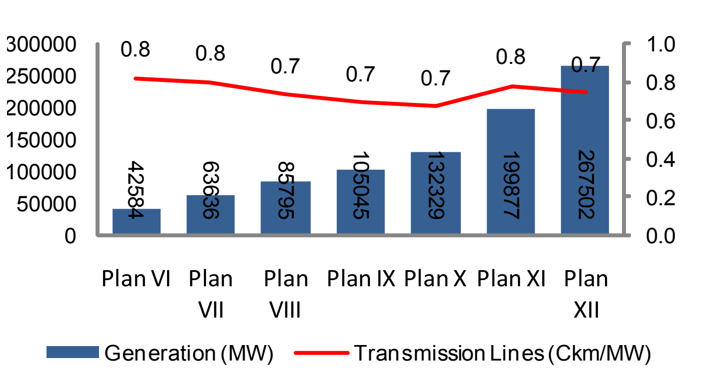
Industry Snapshot – Transmission and Distribution (T&D)

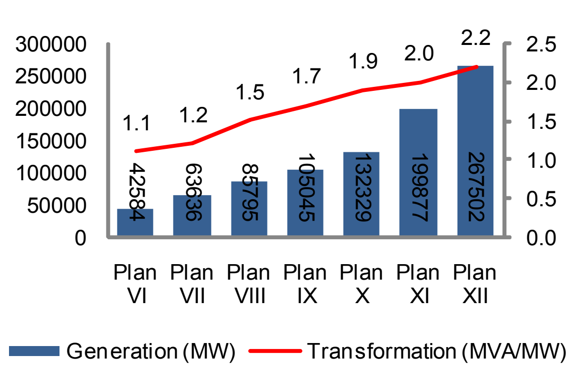
- India's Power Transmission and Distribution (T&D) network constitutes the indispensable gateway of the entire power value chain. There are three major sub-segments of the power sector; namely generation, transmission, and distribution. Country's per capita power consumption (Kwh) has increased at a meagre CAGR of ~5% over the last five years and has reached ~1010 kWh in FY14-15 from ~818 kWh in FY11-12. Current per capita power consumption of ~1,010 KWH is miniscule compared to global average of 2,340 KWH, indicating a high growth potential of the sector.
- Current installed capacity for power in the country as at the end of FY15 is ~275 GW. Target for the 12th Plan (FY12-17) has been set to further to add ~150 GW (~112 GW of conventional and ~38 GW of renewable power). More than half of this capacity addition is expected to be from private sector.
- To transmit this power, transmission lines capacity is expected to increase from ~2,69,571 circuit kilometre (Ckm) at the end of 11th Plan to about 3,79,011 Ckm by the end of 12th Plan and a substation transformation capacity to increase by 65% to 6,58,801 MVA. The backbone transmission system in India is mainly through 400 KV AC network with approximately 1,44,819 Ckm coverage. The highest transmission voltage level is 765 KV with a line length of approximately 32,250 Ckm.

Opportunities & Demand Drivers

- **Debottlenecking the transmission sector**: Over the last 10 years, India has managed to add modest power-generation capacity but transmission capacity has failed to keep up the pace. T&D sector suffers from perennial under investment as compared to the generation sector with ***only 30% increase in transmission capacity Vs 50% increase in generation capacity in the last 5 years.*** Evacuation of power is a major concern in India and almost a third of India is not connected to a power grid. Furthermore, each transmission project takes minimum 4-5 years for commissioning. ***Currently, India has only 2.2MVA of transmission capacity per megawatt of generation capacity Vs the required transmission capacity 7MVA***; this under investment explains the congestion that is visible in the interstate transmission of power across the country. Currently the government is focusing on expanding the transmission capex and dislodging distribution bottlenecks to give back the power sector its major sector growth which is expected to be catalysed by 100 smart cities-APDRP, SAARC grid and dedicated green energy transmission corridor.

Exhibit : Generation and Transmission capacity addition over the plan periods





Source: CEA, SKP Research

*****Every MW of new generation capacity needs around 7MVA of transmission capacity.***

- **Cumulative transmission Capex of Rs 2.6 Trillion over the 13th Plan**: A pick-up in the T&D capex is a strategic imperative to improve the quality of power delivery to customers by replacing the existing T&D assets. India currently has two transmission systems —Interstate Transmission System (ISTS) and Intrastate Transmission System (Intra-STS). Industry's order size largely depends on the level of government spending on the T&D sector. The government has envisaged a capex of Rs 2.6tn over the 13th plan. Out of this, Rs1.6tn would be spent on the ISTS while Rs1tn would be spent by the states on the intra-state transmission network (220kv and below). GoI's plans to double power production in seven years, will also fuel demand for transmission towers.

- For domestic power transmission market, PGCIL is the single largest player. It was the dominant player in ISTS in the 11th and the 12th plan with more than ~80%+ market share. Presently, PGCIL's tendering activity has picked up which signals for green shoots of investment activity in the sector. (PGCIL is likely to give tower orders worth Rs 95bn, indicating a ~52% CAGR growth over FY15-17E).

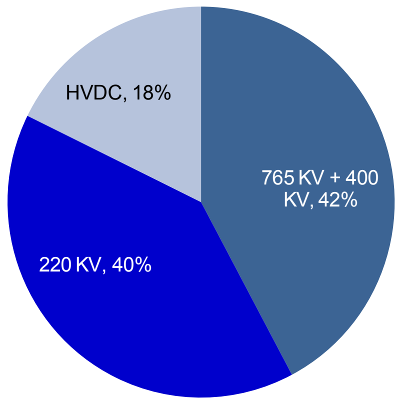
Exhibit : Transmission and distribution spending over the 10th-13th plan

Description	10th Plan			11th plan			12th plan			13th plan		
Rs Bn	Total	PGCIL	Share	Total	PGCIL	Share	Total	PGCIL	Share	Total	PGCIL	Share
Transmission												
Inter State	200	190	95%	550	553	98%	1,250	1,100	80%	1,600	800	50%
Intra State	255			562		0%	550	112	20%	1,000	250	25%
Distribution	300	0	0%	1,000	0	0%	3,062	0	0%	2540	254	10%
Total T&D spending	**755**	**190**	**25%**	**2112**	**553**	**26%**	**4862**	**1212**	**25%**	**5140**	**1304**	**25%**
Total (transmission)	**455**	**190**	**42%**	**1112**	**553**	**50%**	**1800**	**1212**	**67%**	**2600**	**1304**	**50%**

Source: CEA, SKP Research

- **Thrust on higher voltage lines and systems**: Indian transmission network (>132kv) has been moving towards higher voltages and new technologies. Presently, transmission lines primarily run at 400/765kv voltage levels which can easily facilitate efficient and economical integration of large-scale generation projects into a complex transmission grid. To reduce the AT&C losses, Government would go for higher voltages transmission lines which would lead to more efficient transfer of power while using lesser space.

Exhibit : Break-up of the order book pipeline for center and PPP-based opportunity



Source: Company, SKP Research

- **"Make in India" fuelling new orders for domestic players:** GoI's renewed thrust on manufacturing through its "Make in India" campaign is being reflected in the tender documents as PGCIL has already put in place stringent norms to force equipment suppliers to set up factories in India. As per PGCIL, several categories of transmission awards now have this domestic manufacturing clause, leaving aside 765 KV transformers.

- **Government will usher Discoms reforms to ensure long-term financial sustainability of power sector:** Distribution segment is the weakest link in the power sector value chain. Apart from mounting debt of Rs 3.2 lakh crore, power distribution companies (Discoms) struggle with high AT&C (aggregate technical and commercial) losses, unsustainable cross subsidy levels and pile up of regulatory assets. These unsustainable losses of Discoms coupled with its inherent inefficiency will put long term prospects of the sector in jeopardy.Therfore, the incumbent government, in an effort to reboot the power sector to its full potential has advocated a slew of measures at a PM level meeting held on 15.9.2015, which includes an extension of FRBM (fiscal responsibility and budget management) targets for states to enable them to take over more short-term loans for Discoms and issue bonds against it to ease liquidity tightness, plus a time-bound target to reduce AT&C.

Outlook- Equipment Wise

- From the 13th Plan onwards, ISTS spending would slow down to ~28% and the intra-state spending would jump ~82% over the 12th plan as states would increase their spending to upgrade their networks to align with the inter-state transmission corridors. During the 12th plan ISTS was driven by setting up the nine High-Capacity Transmission Corridors (HCTCs), which are linked to the generation plants. Below are some details on how spending is likely to incur to various equipment providers and contractors.

  Transformers: In the 13th Plan, transformation capacity is likely to grow by ~40% to 940607 MVA, incremental capacity additions of ~270,806 MVA, while total spending would be flat as compared to the 12th Plan. In the ~765kv segment, transformer capex is likely to decline by ~47% to Rs 24bn and increased spending in the 400kv by ~9% to Rs 15 bn in the 13th Plan. Currently, there are 4 serious players in 400/765kv transformers— Siemens, Crompton Greaves, ABB and Alstom T&D Toshiba, who would see subdued demand into the 13th Plan. In the 13th Plan, spending in the 220kv segment would be driven by sharp upgradation of transmission network by states.

Exhibit : Transformers- Capacity And Capex addition over the 11th -13th plan

Description	11th plan	12th plan	13th plan
Substations transformation capacity (MVA)			
765kv	25,000	174,000	253,000
400kv	151,027	196,027	245,007
220kv	223,774	299,774	442,600
Total- Substation capacity, MVA	**399801**	**669801**	**940607**
YoY Growth (%)		**68%**	**40%**
Transformer capex (Rs Bn)			
765kv	8	45	24
400kv	17	14	15
220kv	20	23	43
Total- Transformer capex (Rs Bn)	**45**	**81**	**81**
YoY Growth (%)		**80%**	**0%**

Source: CEA, SKP Research

Transmission lines: GoI is all set to spend at least Rs1.5tn in the 13th Plan, an increase of ~41% over the 12th Plan, which is mainly driven by a surge in capex in 220kv and HVDC lines. While transmission capacity is likely to grow by ~35% to 513435 Ckm, incremental capacity additions of 134424 Ckm is expected. Also spending in 765kv and 400kv would be largely flat at a cumulative Rs 633bn. along with spending for intra-state transmission in the HVDC lines which is likely to be Rs 265bn. Currently, there are only three serious players in 400/765kv tower manufacturing segment —KEC, Kalpataru and Skipper.

Exhibit : Transmission Lines - Capacity & Capex addition over the 11th -13th plan

Description	11th plan	12th plan	13th plan
Transmission Lines (>220kv) ckm			
HVDC Bipole lines	9,452	18,892	27,472
765kv	4,164	31,164	54,450
400kv	114,979	152,979	174,819
220kv	140,976	175,976	256,694
Total	**269571**	**379011**	**513435**
Transmission Line Capex (Rs Bn)			
HVDC Bipole lines	89	186	265
765kv	46	324	333
400kv	249	304	300
220kv	171	245	600
Total- Transmission Line Capex (Rs Bn)	**554.6**	**1059**	**1498**
YoY Growth (%)		**91%**	**41%**
% of total transmission capex	**50%**	**59%**	**59%**

Source: CEA, SKP Research

Substation: For 13th plan, the substation capex would be Rs 984bn largely driven by spending on HVDC and 220kv substations. The government is likely to spend Rs 210 bn in the HVDC substation while they are expected to increase spending by ~111% on 220kv substations to Rs 400bn.

Exhibit : Substation- spending over 11th – 13th plan: By equipment type

Description	11th plan	12th plan	13th plan
Substations transformation capacity			
HVDC Bipole/ Back to back	19	140	210
765kv	75	298	237
400kv	145	113	137
220kv	168	190	400
Total- HVDC Terminal Capacity, MW	**408**	**741**	**984**

Source: CEA, SKP Research

- **Peer Group Analysis:**

	*Capacity In MTPA			Revenue- (In Millions)			EBITDA (%)			PAT (%)			ROE (%)		
	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15
KEC Ltd	174000	211200	313200	69795	79018	84678	5.5%	6.2%	6.0%	0.9%	0.8%	1.9%	5.8%	5.7%	12.8%
Kalpataru Ltd	180000	180000	180000	60850	70903	71982	7.8%	8.3%	9.8%	2.1%	1.7%	1.7%	6.8%	6.0%	5.6%
Skipper Ltd	130000	151000	175000	8373	9457	11342	9.5%	10.6%	16.9%	2.1%	2.6%	6.8%	5.9%	7.7%	25.5%
Jyoti Structures Ltd	116160	116160	116160	29648	35510	30378	8.9%	6.5%	0.9%	1.3%	-0.3%	-12.7%	5.6%	NA	NA
Technocraft Ltd	40000	40000	40000	8088	10449	10288	15.0%	12.9%	13.7%	9.2%	8.6%	7.2%	15.8%	16.7%	12.4%

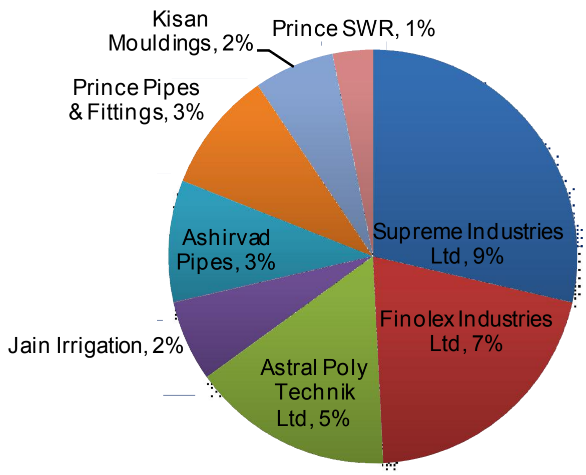
Source: Company, SKP Research

For all the companies, capacity indicates their tower manufacturing capacity; whereas revenue and other financial metrics are derive from the respective company's consolidated number

Industry Snapshot – Water Transportation (PVC Pipes)

- **Size and Growth Trends:** The size of the Indian PVC pipe industry is ~1.8 million MT, which is growing at ~8-10% per annum. The industry is projected to reach Rs 240 bn operating on a unique cash-n-carry model with a strong focus on the agriculture-pipe market. Key raw materials for PVC production are EDC, Ethylene and VCM. Among the different types of pipes in India, PVC Pipes have a market share of ~86%, whereas, Polyethylene Pipes & Polypropylene pipes have a market share of 12% and 2% respectively. The share of the organised market is ~60% and is further rising with an increase in brand and quality preference. Organized players are likely to benefit from increased distribution reach, consistent quality and the proposed introduction of GST.
- **PVC Pipes- Business Segment:** The PVC pipes segment consists of three sub-segments **(I)** Agricultural pipes **(II)** Plumbing pipes **(III)** Hot and cold plumbing pipes. Agriculture PVC pipes segment accounts for over 60% of industry's size, with the balance being catered by plumbing pipes (~40%). Agricultural pipes industry (size Rs 105 bn) has been growing at a modest rate and is largely unorganised, with large number of unorganised players accounting for over 50% of industry's pie. Plumbing pipes industry (size Rs 68 bn) has been growing at a higher rate. It is largely dominated by organised players accounting for over 70% of industry's size, with the balance being taken up by the unorganised sector.

Exhibit: Major Players and their market share (%)

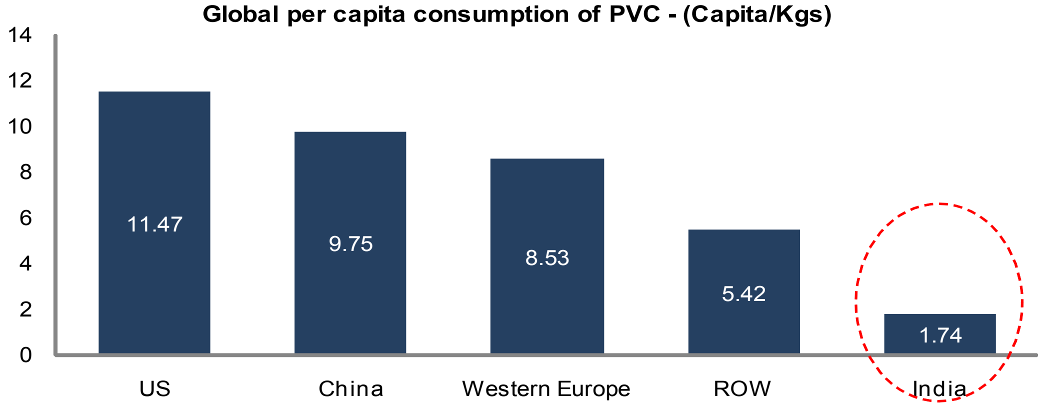


Source: SKP Research

Opportunities & Demand Drivers

- **Per capita consumption of PVC pipe is low:** Demand for PVC Pipes is largely dependent on the user industries, mainly agricultural and plumbing piping system. India's per capita PVC pipes consumption remains the lowest in the world - 1.74 Kgs as compared to 9.75 Kgs in China and 11.47 Kgs in the US. Expected growth in the user industry coupled with low per capita consumption indicates ample scope for PVC pipe industry going forward.

Exhibit : Global per capita consumption of PVC



Source:SKP Research

- **Replacement demand continues to persist:** Replacement of conventional piping systems like galvanized iron (GI) and cast iron (CI) piping systems with plastic is another strong growth lever for the PVC plumbing segment. The UPVC, ASTM and SWR pipes in the plumbing segment are fast replacing conventionally used GI and CI pipes, respectively. While West and South India have seen a large part of replacement demand being dealt with, there is still strong replacement potential in North and East India, which could result in strong growth opportunities for PVC plumbing pipe players going forward.
- **New housing construction demand:** Strong growth in plumbing pipes segment is partly attributed to buoyant construction activities in Tier II and III cities over the last five years. Growth opportunities continue to remain upbeat, considering housing shortage and GoI's thrust in this sector. At present, total housing shortage in urban areas is ~60mn units. One urban unit consumes ~100-150kg of PVC pipes. For government's "housing for all by 2022" to succeed, the country needs to developed about 111 mn housing units, which could result in an incremental demand of PVC pipes.
- **Agricultural pipes segment shifted from unbranded to branded pipes:** Agricultural pipes industry (size Rs 105bn) which is largely unorganised, accounts for over 50% of industry's size. Over the past five years, there has been a gradual demand shift to branded pipes. As a result, branded players have outperformed the pace of growth of unbranded players.
- **Only 37% agri land under irrigation - Provides huge growth opportunities in rigid PVC pipes:** India's crop irrigation area is estimated at ~160 million hectares. At present, only 37% of this crop area is irrigated, with the balance being rain fed. Farmers are increasingly forced to source water from faraway places as the water labels across the country are depleted. Consequently, demand for rigid PVC pipes is expected to increase.
- **Benefit from Government's thrust of water infrastructure development:** GoI is committed for a higher investment in water infrastructure projects, it is expected that demand for Indian pipe industry would continue to remain healthy. With a market size of over USD 4 billion, the Indian water and wastewater market is expected to grow at the rate of 10%–12% every year.

Company Profile

- Skipper Ltd. was incorporated in 1981, to manufacture integrated infrastructure products such as transmission towers, telecom towers, hot-rolled products, octagonal and swaged tubular poles, scaffolding systems etc. and has lately ventured into engineering, procurement and construction (EPC) space albeit in a small scale.

- Skipper derives ~85% of its revenue from PCGIL projects and generally operates in 400KV-1200 KV segment, which has high entry barriers like prequalification, quality & infrastructure related criteria. It took Skipper seven years to become a dominant player in the transmission tower business and its exports spans across South America, Europe, Africa, and Middle East, South and South East Asia and Australia.

- Skipper ventured into water transportation business in 2009 and currently manufactures PVC pipes and fittings, and enjoys ~10% of Eastern India's market share with a wide distribution network of ~500 channel partners. The company will emerge among the five largest Indian PVC pipe manufacturers, once it charted out plans to increase its PVC pipes capacity to 100,000 MTPA by FY2018.

Exhibit: Key Milestones

1981	Company incorporated and commenced manufacturing hamilton poles.
2001	Company entered into manufacturing telecom towers & masts.
2001	Set up LPG cylinder unit.
2003	Set up first tube mill.
2005	Set up first galvanizing plant.
2006	**Crossed Revenue of Rs 100 crore.** Got PGCIL's approval of tower unit and first prder for 400Kv towers (The highest voltage level at that time). Entered into a manufacturing tie-up with Ramboll, Denmark- the world's largest tower Design Company.
2007	Entered into value addition of steel tubes as scaffoldings.
2008	**Started process of conversion of Tower production process from manual to automated CNC.**
2009	**Got India's first order for 800Kv transmission towers from PGCIL.** Commissioned Uluberia unit with first PVC unit and India's first double side Tube GI plant.
2010	Entered into backward integration of the two major product verticals Tubes and Towers, by way of Strip mill and Angle mill, respectively.
2013	**Crossed Revenue of Rs 1000 crore.** Alliance with South America's largest TSO for exclusive supply to their transmission projects.
2014	July 2014, Listed with BSE.
2015	**Company is awarded as "Fastest growing Transmission Tower Manufacturing Company" by CNBC TV-18.** Crossed Revenue of Rs 1400 Crore. New PVC captive support unit got operational at Ahmedabad in April 2015. May 2015, listed with NSE.Market cap of Rs 1790 Crore.

Source: Company, SKP Research

- Skipper has three state-of-the art manufacturing plants in Eastern India, two at Jangalpur and one at Uluberia, all near Kolkata, with an installed capacity of 175,000 million MTPA. It has recently hived off its scaffolding business. All its transmission tower plants are PCGIL approved. On the water infrastructure side, the company currently manufactures Polyvinyl Chloride (PVC) pipes and fittings, and has capacity of 22,500 MTPA.

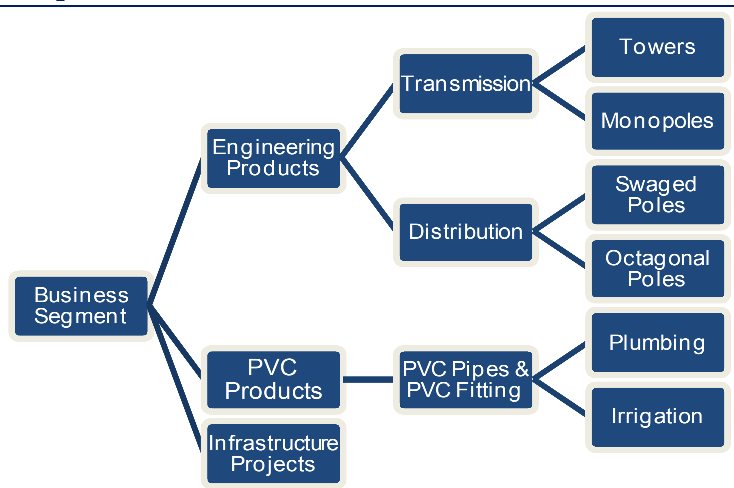
Exhibit: Plant Overview

	Plant Location				
Particulars	**Uluberia**	**Jangalpur - I**	**Jangalpur -II**	**Ahmadabad ***	**Total**
Transmission line towers	70000	69000	36000		175000
Hot Rolled Products	215000				215000
Tubular Products (Poles,Solar Structures)	30000				30000
MS & GI Pipes	140000				140000
Plastic Tubes & Fittings	12500			10000	22500
Total Capacity Miilion tonnes	**467500**	**69000**	**36000**		**582500**

Source: SKP Research (* Captive support unit in a group comapny)

- **Business Segment and Revenue Mix**: Skipper has three business segments i.e. Engineering products, PVC products and Infrastructure projects. It has presence across T&D business sub-segments – Towers, EPC, monopoles and poles and towers segment account for almost ~60% of T&D business. It is one of the three companies in India producing monopoles and four largest manufacturers of galvanized steel poles. It has designing and manufacturing monopoles tie-up with Ramboll of Denmark and manufactures the entire basket of products in steel poles from swaged to octagonal to conical to high masts.

Exhibit: Business Segment

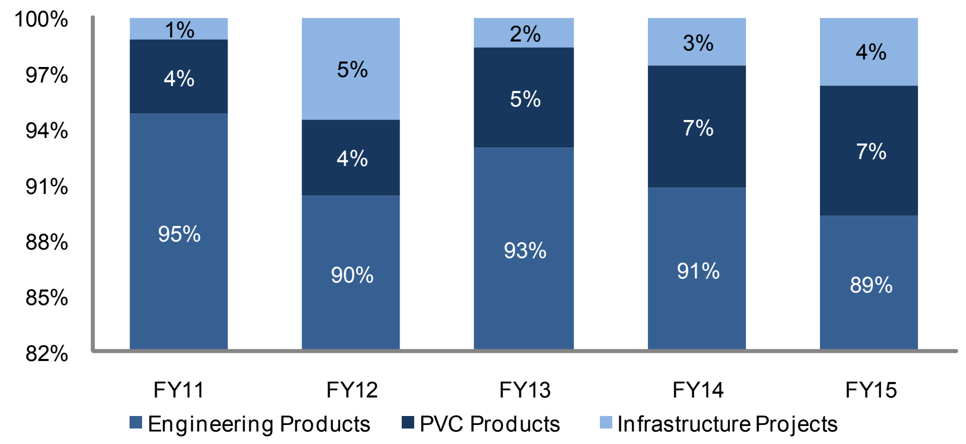


Source: Company, SKP Research

Engineering Products: Engineering Products business accounts for nearly ~89%-90% of total revenues of Rs 12.7 bn (FY15). This segment's share of revenue declined to 89% in FY15 against 95% in FY11 and going forward we believe, engineering segment will maintain a share of ~80-84% over the next two years. Segment's realizations were at ~Rs 83,726/tonne and EBITDA margins at ~15% in FY15. The company is likely to report an above industry average margin in FY16 backed by higher capacity utilisation and better operating leverage.

PVC Pipes: PVC pipes segment accounts for ~7% of total revenue (FY15). Going forward we believe; this segment will maintain a share of ~12-17% over the next two years. Currently, agriculture sector accounts for ~70-75% of revenue and the rest is contributed by the plumbing sector. Segment's Realizations were at ~ Rs 80,907/tonne and EBIT margins at ~12% in FY15.

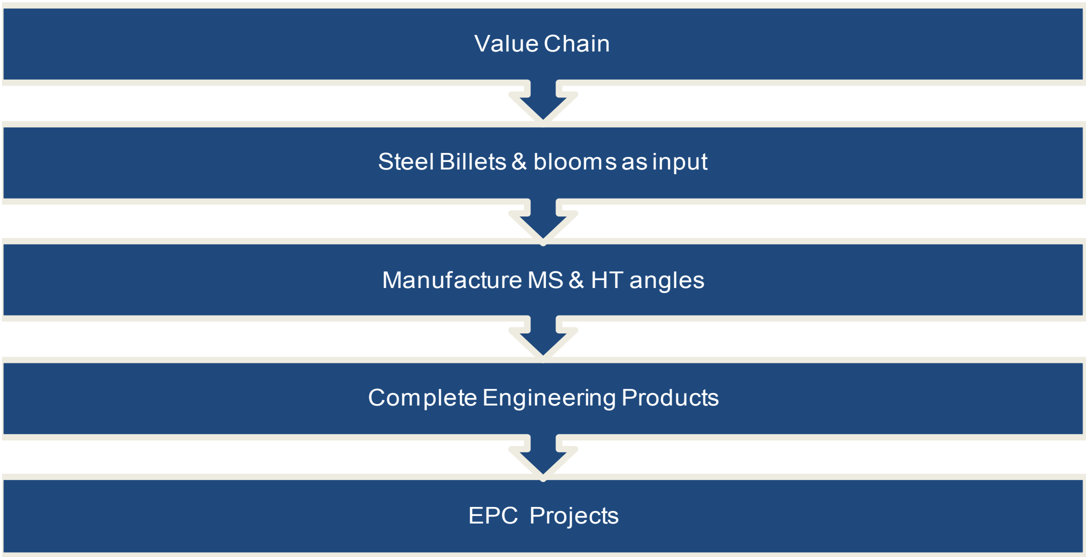
Exhibit: Revenue Mix (%)



Source: Company, SKP Research

Raw Material: Skipper is the only company in India to have complete value chain control from angles to tower production to fasteners to EPC resulting in control of over 80% of the cost on any tower line. The company has done backward integration through angle rolling which is the main raw material for towers and is also horizontally integrated with manufacturing of fasteners and accessories for towers. The location of Skipper in Eastern India allows it access to raw material at a competitive price leading to cost competitiveness and it enjoys ~400-500 bps of cost saving by way of economies of scale, lower freight costs and sources its raw material, mainly billets, from SAIL.

Exhibit: Integrated Value Chain-



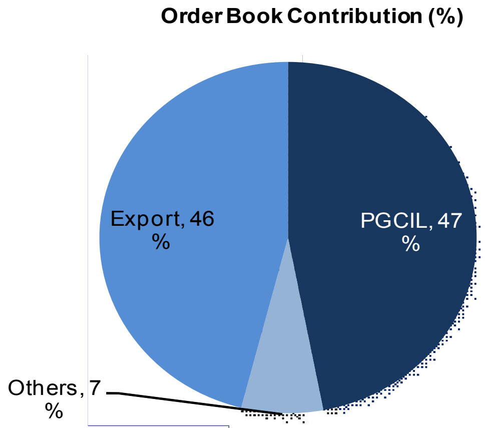
Source: Company, SKP Research

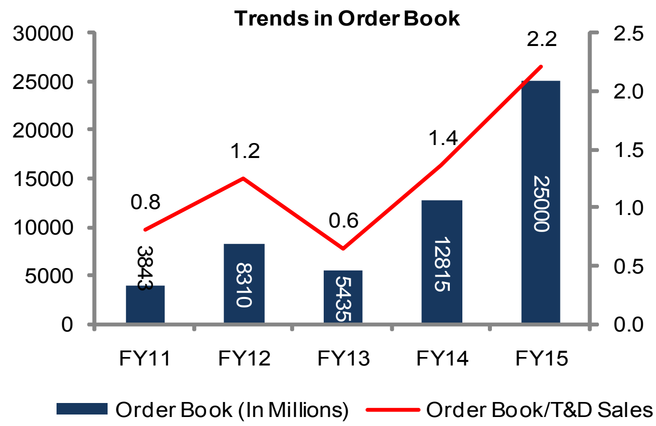
Investment Rationale

Engineering product business: In a sweet spot with locational advantage; strong order book; expansion underway to encash substantial growth opportunity

- Skipper is in the midst of T&D capacity expansion plan with investment of ~Rs 395 million (For FY16E & FY17E), funded through a mix of some debt and internal accruals. It derives ~85% of its revenue from PCGIL projects and generally operates in 400KV-1200 KV segment, which has high entry barriers like prequalification, quality & infrastructure related criteria. Skipper's current order book in the T&D segment stands at Rs 25 bn (around 2x of the FY15 sales of its engineering products business) and is well diversified between domestic as well as international orders. PGCIL contributes 47% of the total order book and we expect PGCIL order book to grow at a CAGR of ~34% over the next two years.The order cycle for this business is ~2-3 years and export order comprises ~46% of the current order book and has an order cycle of ~3 years.

Exhibit: Export Constitutes 46% of total orderbook

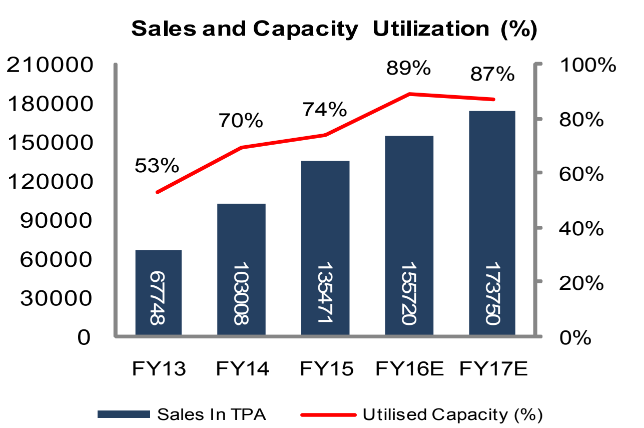


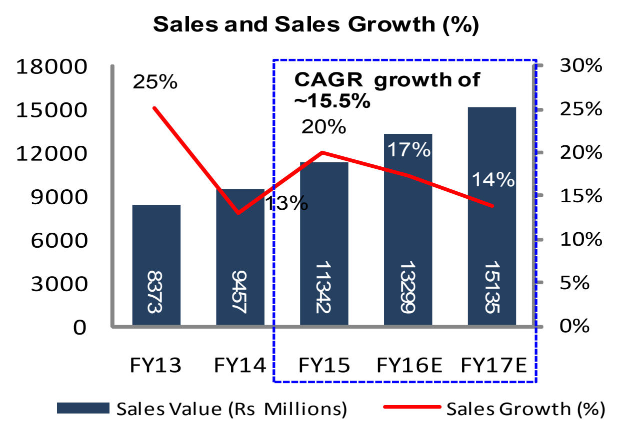


Source: Company, SKP Research

- On the back of healthy demand from PGCIL and export market, we expect T&D sales volume to increase at a CAGR of ~13.3% in FY15-17E to ~1,73,750 MTPA. Currently, Skipper's engineering product segment is operating at ~86% capacity utilization levels on its existing capacity of ~1,75,000 MTPA and we expect it to improve its average capacity utilization to ~88% by FY17E on expanded capacity of ~2,00,000 TPA. Going forward, revenue of engineering product business is expected to increase from Rs 11.3 bn to Rs 15.1 bn during FY2015-17E, reporting a CAGR of ~15.5%.

Exhibit: Engineering Product Segment





Source: SKP Research

PVC capacity addition by 3x through asset light model

- Skipper plans to increase its PVC pipe capacity by 3x to 60,000 MTPA by FY17 and this segment is expected to be the fastest growing segment over the next ~2-3 years. During Q1FY16 a 10,000 MT PVC plant at Ahmedabad, the commercial production of which is expected to start from H2FY16 has been commissioned in a group company as a captive support unit. Also, Skipper is adding new capacities in Sikandrabad (8,000 MT), Guwahati (4,000 MT) and Hyderabad (6,000 MT) at an investment of ~Rs 200 mn, funded through a mix of debt and internal accruals. These plants will get commissioned in H2FY16 and revenues will start stemming from FY17.

- Given the ambitious growth plans that Skipper has in the PVC Pipes business, as a matter of strategy and corporate governance, Skipper merging this 10,000 MT captive support PVC plant at Ahmedabad, can be reasonably expected.

Exhibit: PVC Capacity expansion at a glance (In TPA)

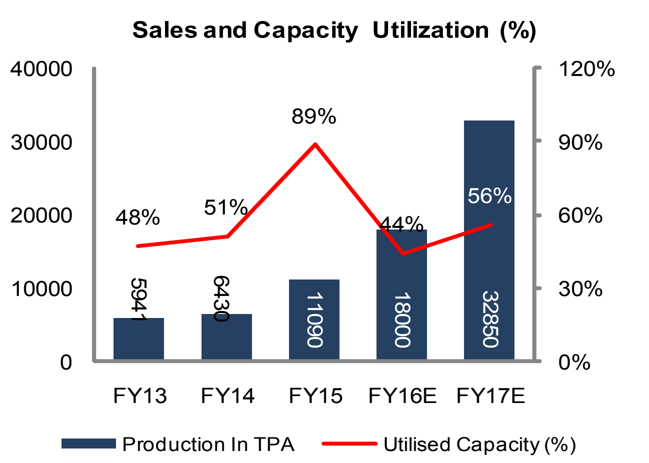
Plant Location	Current Capacity	Capacity Expansion	Commisionng Date	Post Expansion
Uluberia	12500			
Ahmedabad - Captive*		10000		22500
Sikandrabad		8000		30500
Guwahati		4000	H2FY16	34500
Hyderabad		6000		40500

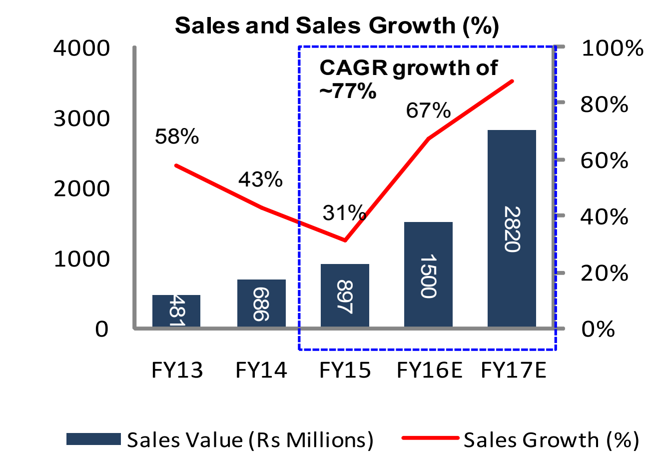
*Captive support unit in a group company to cater to the western states of Gujarat and Maharashtra.

Source:SKP Research

- Skipper's current strategy of adding capacity through asset light model on leased premises, reduces capex by ~60% and largely investing in machinery, thereby saving interest cost by lowering its capital deployment and enhancing return ratios. Also, multi-locational manufacturing facilities will help in lowering freight costs. Going forward, revenue of PVC business is expected to increase from Rs 897 mn to Rs 2,820 mn during FY2015-17E, reporting a CAGR of ~77%.

Exhibit: PVC Pipes Segment





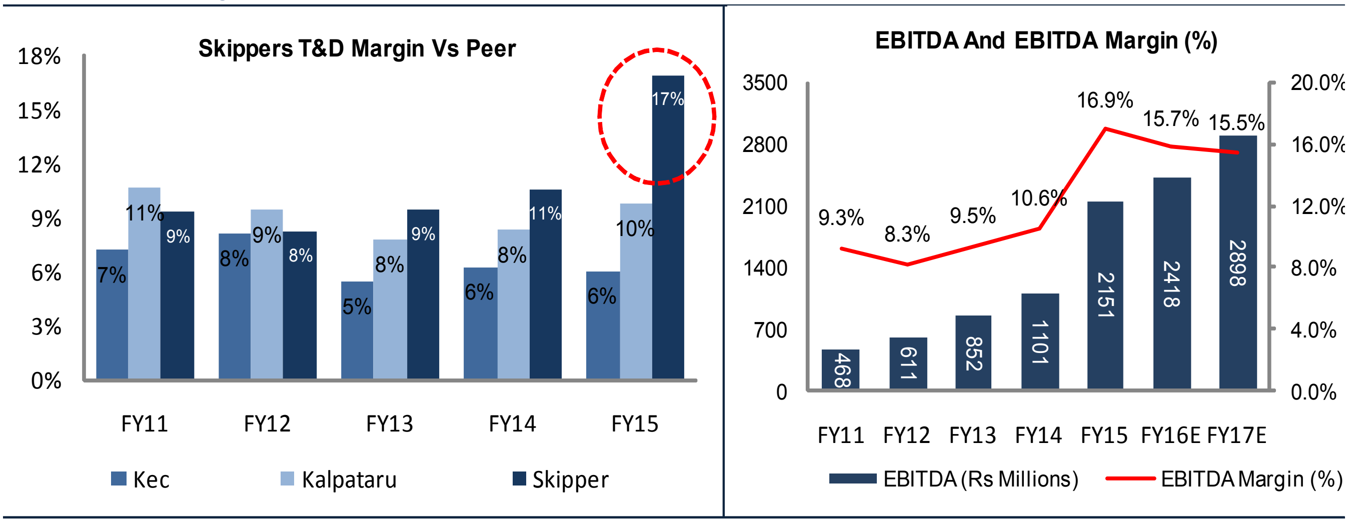
Source: SKP Research

- Skipper has recently tied up with a Japanese firm, Sekisui, to source CPVC compounds to make CPVC pipes and a Netherland based firm, Wavin to market PB pipes in India. The addition of CPVC pipes to the product basket strengthens its position in urban centers and will increase its share of revenue from plumbing sector.

Margins to stabilize at ~15%+ with better operating leverage

- Skipper enjoys higher T&D margins vis-à-vis its peers on account of (1) **Scale and Size** – Allows it to have high negotiation power on raw material sourcing, resulting in low manufacturing cost (2) **Integrated Operations –** Aids in retaining profits on rolling mill operation, which other players have to pay to rolling vendor and (**3) Logistic Advantage** – Presence of steel plants near the factory (eastern India), results in lower input logistic cost. The combined effect of all three advantages leads to ~5% additional saving in margins compared to its peers.
- EBIDTA margins of the company were under pressure from FY11 to FY14 and remained in the range of ~9.3%-10.6% on account of its low margins in ERW steel tubes and scaffoldings business. In FY14, the company restructured its ERW steel tubes business and leased out its 50,000 MTPA capacity to Tata Steel, and earns job work charges on cost plus basis from it. Post, restructuring of ERW steel tubes business, margins improved significantly to 16.9% in FY15, which is also aided by higher capacity utilization and steep fall in raw materials prices.
- Post expansion, Skipper will become a Pan India PVC player, which would lead to higher overhead spending (marketing and brand building expense etc.), thereby restricting EBITDA margins at level of ~15.5% in the near term.

Exhibit: EBITDA Margin

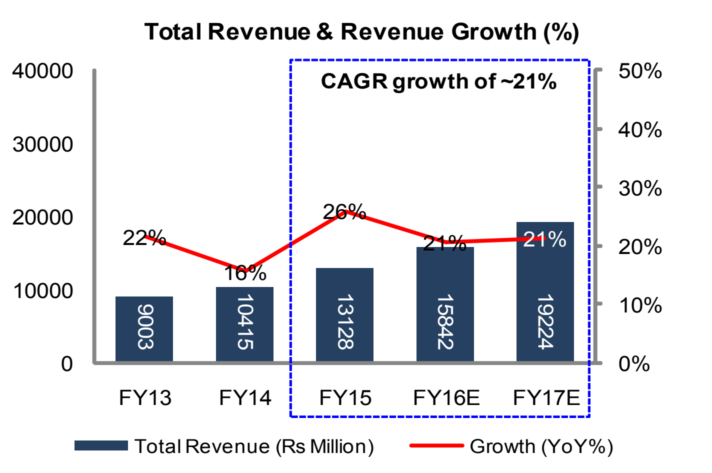


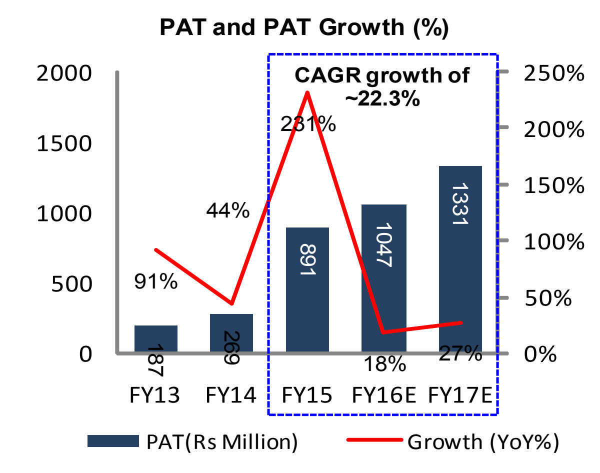
Source: SKP Research

Top-line expected to grow at a CAGR of 24.5% over FY15-17E

- In FY15, Skipper reported net sales of Rs 13.1 bn, registering a growth of 26% y-o-y due to robust order book from PGCIL and expected pick up in the PVC pipe business. Going forward, we expect Skipper to grow at a CAGR of ~21% during FY15-FY17E with ~15.5% and ~77% CAGR in engineering products and PVC products division, respectively. While on the back of a higher capacity utilization and improvement in operating margins, we expect PAT to grow at a CAGR of ~22.3% in FY15-17E.

Exhibit:Revenue and PAT





Source: SKP Research

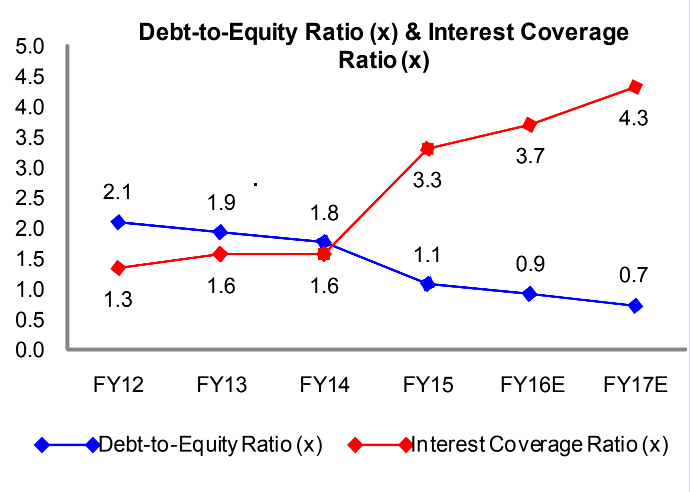
De-leveraging Balance Sheet and keeping capex commitments low:

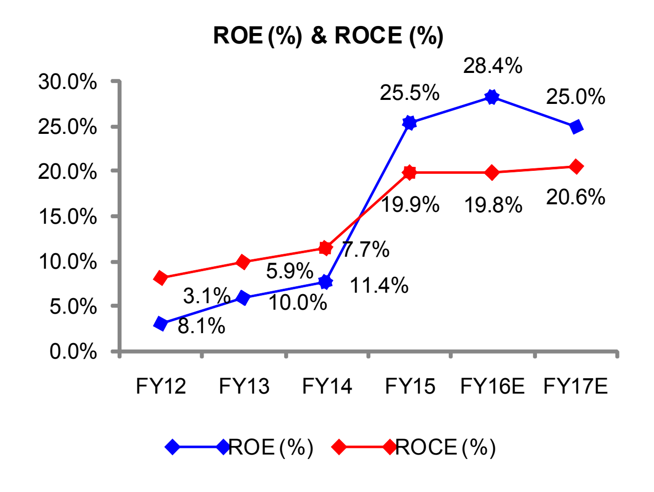
- Over the last few years, the company has reduced its net debt from Rs. 3.8 bn in FY13 to Rs 2.9 bn in FY15, bringing down D/E ratio significantly to 1.1x in FY15 from 1.9x in FY13 on account of better operation performance and working capital management. For the next two years, capex would be in the range of Rs 350-430 mn which will be funded through internal accruals and minuscule debt.

- Skipper focus on enhancing capacities through asset light model not only reduces its capital investments but also de-risks the balance sheet, enhances return ratios and provides faster access to capacities thereby, resulting in low debt equity ratio (D/E). We believe going forward; the company will not raise sizeable long term debt, thereby strengthening its balance sheet. On the back of better operational efficiency, we expect the D/E ratio to further come down to 0.76x in FY17E.

- Its asset light approach favors immense internal accruals and is structured to reap operating leverage. Thus, we estimate ROE to improve from ~5.9% in FY13 to ~25% by FY17E driven by a combination of improved margin and asset turnover. Similarly, we estimate ROCE to improve from ~10% in FY13 to ~20.6% by FY17E.

Exhibit: D/E Ratio and ROE





Source:SKP Research

Key Concerns

- **Slowdown in order intake & execution:** Over the last couple of years, Skipper reported healthy top-line on the back of order pick-up from PGCIL and export market. However, going forward, any slowdown in transmission capex and lower than expected execution for the export market could adversely impact order book intake and could also impact our estimates for the engineering product segment, thereby, adversely affecting the overall performance.

- **Delay in capacity addition for PVC segment:** Skipper has an aggressive capacity expansion plan for the PVC business which will bring new execution and competition challenges. If the company resorts to aggressive pricing on its way to become a national player than it would be a margin dilutive proposition for Skipper.
- **Volatile Dollar Rupee Rate**: Export market contributes 50% of total order book. Any unfavorable USD-INR movement may have negative impact on the margins and profitability.

Valuations

- With GoI's thrust on improving T&D infrastructure (capex of Rs 2.6 tn over the 13th five year plan) in the country coupled with higher order inflow from PCGIL, strong entry barriers, efficient working capital management, prudent approach to reinforce orders, increasing PVC capacity through asset light model and enhancing return ratios augurs well for the company.

- We have valued the stock on the basis of P/E of 15.0x of FY17E EPS and recommend a BUY on Skipper with a target price of Rs 195/- (~39% upside) in 18 months.

Q1FY16 Result Update

Exhibit: Q1FY16 Result Review *Figs. in INR Million*

Particulars	Q1FY16	Q1FY15	YoY % Change	Q4FY15	QoQ % Change
Net Sales	2,344.2	1,832.0	28.0%	4,994.7	-53.1%
Other Operating Income	22.4	-	-	4.7	377.5%
Total Income	**2,366.6**	**1,832.0**	**29.2%**	**4,999.4**	**-52.7%**
Expenditure	**2,013.1**	**1,558.3**	**29.2%**	**4,312.5**	**-53.3%**
Material Consumed	2,164.3	1,700.1	27.3%	2,489.4	-13.1%
(as a % of Total Income)	***91.5%***	***92.8%***		***49.8%***	
increase or decrease in stock in trade	(704.4)	(534.5)	31.8%	1,127.8	-162.5%
(as a % of Total Income)	***-29.8%***	***-29.2%***		***22.6%***	
Employees Cost	102.0	71.4	42.8%	87.2	17.0%
(as a % of Total Income)	***4.3%***	***3.9%***		***1.7%***	
Other Expenses	451.3	321.4	40.4%	608.1	-25.8%
(as a % of Total Income)	***19.1%***	***17.5%***		***12.2%***	
EBITDA	**353.4**	**273.7**	**29.1%**	**686.9**	**-48.5%**
EBITDA Margin (%)	***14.9%***	***14.9%***	***(1)Bps***	***13.7%***	***120 Bps***
Depreciation	58.8	54.4	8.2%	63.4	-7.2%
EBIT	**294.6**	**219.4**	**34.3%**	**623.5**	**-52.7%**
Other Income	6.1	8.1	-24.7%	0.8	656.4%
Interest Expense	147.3	126.7	16.2%	153.6	-4.1%
Profit Before Tax	**153.5**	**100.8**	**52.3%**	**470.8**	**-67.4%**
Income Tax	53.3	35.2	51.5%	168.2	-68.3%
Effective Tax Rate (%)	*34.7%*	*34.9%*	-	*35.7%*	-
Profit After Tax (PAT)	**100.2**	**65.6**	**52.8%**	**302.6**	**-66.9%**
PAT Margins (%)	***4.23%***	***3.58%***	***66 Bps***	***6.05%***	***(182)Bps***
Diluted EPS	0.98	0.64	52.8%	2.96	-66.9%

Source: Company Data, SKP Research

Exhibit: Income Statement *Figures in INR Million*

Particulars	FY14	FY15	FY16E	FY17E
Total Income	**10,415.1**	**13,127.8**	**15,842.2**	**19,224.2**
Growth (%)	*15.7%*	*26.0%*	*20.7%*	*21.3%*
Expenditure	**9,313.8**	**10,977.2**	**13,427.1**	**16,341.4**
Material Cost	7,869.9	8,550.9	10,337.0	12,591.8
Traded goods	-269.4	246.5	316.8	384.5
Employee Cost	273.9	341.0	475.3	576.7
Admin & Other Exp.	1,438.5	1,838.0	2,297.1	2,787.5
EBITDA	**1,101.2**	**2,150.6**	**2,415.1**	**2,882.8**
Depreciation	150.8	219.9	229.5	241.1
EBIT	**950.4**	**1,930.7**	**2,185.6**	**2,641.6**
Other Income	22.1	16.6	15.8	19.2
Interest Expense	605.4	582.6	590.1	612.5
Profit Before Tax (PBT)	**367.1**	**1,364.6**	**1,611.4**	**2,048.3**
Income Tax	98.1	474.0	564.0	716.9
Profit After Tax (PAT)	**269.1**	**890.7**	**1,047.4**	**1,331.4**
Growth (%)	*43.8%*	*231.0%*	*17.6%*	*27.1%*
Diluted EPS	**2.7**	**8.7**	**10.2**	**13.0**

Exhibit: Balance Sheet *Figures in INR Million*

Particulars	FY14	FY15	FY16E	FY17E
Share Capital	102.3	102.3	102.3	102.3
Reserve & Surplus	2,209.4	2,936.3	3,965.7	5,267.1
Shareholders Funds	**2,311.8**	**3,038.7**	**4,068.0**	**5,369.4**
Total Debt	**4,062.3**	**3,431.0**	**3,899.7**	**4,083.5**
Deferred Tax (Net)				
Total Liabilities	**6,374.1**	**6,469.7**	**7,967.7**	**9,453.0**
Net Block inc. Capital WIP	**3468.1**	**3547.4**	**3863.0**	**4136.0**
Deferred Tax (Net)	(217.8)	(264.7)	(264.8)	(264.7)
Non-Current Assets	**5,337.4**	**7,089.5**	**7,594.6**	**9,910.2**
Inventories	2,290.1	2,282.4	2,588.7	3,137.9
Sundry Debtors	2,308.5	3,757.8	3,800.6	5,381.9
Cash & Bank Balance	263.1	560.9	560.0	607.3
Other Current Assets	21.1	30.6	30.7	37.3
Loans & Advances	454.6	457.8	614.5	745.7
Current Liabilities & Prov	**2,213.7**	**3,902.6**	**3,225.1**	**4,328.6**
Total Assets	**6,374.1**	**6,469.7**	**7,967.7**	**9,453.0**

Exhibit: Cash Flow Statement *Figures in INR Million*

Particulars	FY14	FY15	FY16E	FY17E
Profit Before Tax (PBT)	**367.1**	**1,365.7**	**1,611.4**	**2,048.3**
Depreciation	150.8	219.9	229.5	241.1
Finance Costs	605.4	582.6	590.1	612.5
Chg. in Working Capital	1,055.6	2,076.3	2,829.9	2,815.6
Direct Taxes Paid	(48.2)	(338.1)	(564.0)	(716.9)
Other Charges	(602.2)	(576.0)	(590.1)	(612.5)
Operating Cash Flows	**405.1**	**1,162.2**	**1,675.8**	**1,486.2**
Capital Expenditure	(326.8)	(319.4)	(315.3)	(375.0)
Investments	5.4	9.0	-	-
Others	2.5	-	-	-
Investing Cash Flows	**(316.4)**	**(316.4)**	**(315.5)**	**(374.7)**
Changes in Equity	-	-	-	-
Inc / (Dec) in Debt	(180.7)	(566.3)	(577.9)	(490.1)
Dividend Paid (inc tax)	(11.4)	(18.0)	(15.3)	(25.6)
Financing Cash Flows	**(192.1)**	**(584.3)**	**(1,086.7)**	**(1,064.2)**
Chg. in Cash & Cash Eqv	(103.3)	261.5	273.6	47.3
Opening Cash Balance	128.2	24.9	286.4	560.0
Balances with Banks	238.2	274.6	-	-
Closing Cash Balance	**24.9**	**286.4**	**560.0**	**607.3**

Source: SKP Research

Exhibit: Ratio Analysis

Particulars	FY14	FY15	FY16E	FY17E
Earning Ratios (%)				
EBITDA Margin (%)	10.6%	16.9%	15.7%	15.5%
PAT Margins (%)	2.6%	6.8%	6.6%	6.9%
ROCE (%)	11.4%	19.9%	19.8%	20.6%
ROE (%)	7.7%	26.1%	28.4%	25.0%
Per Share Data (INR)				
Diluted EPS	2.7	8.7	10.2	13.0
Cash EPS (CEPS)	1.2	6.6	8.0	10.7
BVPS	23.4	29.7	39.8	52.5
Valuation Ratios (x)				
P/E	13.5	17.3	13.7	10.8
Price/BVPS	1.6	5.1	3.5	2.7
EV/Sales	0.7	1.4	1.1	0.9
EV/EBITDA	7.0	8.7	7.5	6.3
Dividend Yield (%)	0.4%	0.1%	0.1%	0.2%
Balance Sheet Ratios				
Debt - Equity	1.8	1.1	1.0	0.8
Current Ratio	2.4	1.8	2.3	2.3
Fixed Asset Turn. Ratios	1.5	1.9	2.1	2.4

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Tickerplant and ISI Securities.

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Disclosure of Interest Statement

Analyst ownership of the stock	NIL
Served as an officer, director or employee	NIL

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