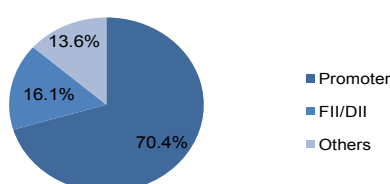
 SKP Securities Ltd	<i>February 12, 2018</i>	
	<i>Skipper Ltd.</i>	
	<i>Towering high...</i>	
CMP INR 258	Target INR 367	Result Update - BUY

Key Share Data

Face Value (INR)	1.0
Equity Capital (INR Mn)	102.4
Market Cap (INR Mn)	26,419.2
52 Week High/Low (INR)	292/140
6 months Avg. Daily Volume (BSE)	35,195
BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPER:IN

Shareholding Pattern (as on 31st Dec 2017)



Source: Company

Key Financials (INR Million)

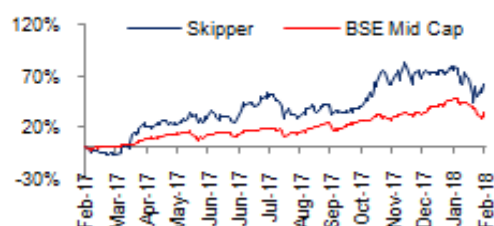
Particulars	FY17	FY18E	FY19E	FY20E
Net Sales	16,785.7	20,221.3	24,319.3	28,536.0
Growth (%)	14.8%	20.5%	20.3%	17.3%
EBITDA	2,216.5	2,649.0	3,233.6	3,823.8
PAT	1,115.0	1,109.8	1,496.1	1,875.0
Growth (%)	17.2%	-0.5%	34.8%	25.3%
EPS (INR)	10.9	10.8	14.6	18.3
BVPS (INR)	48.3	57.2	69.7	93.7

Key Financials Ratios

Particulars	FY17	FY18E	FY19E	FY20E
P/E (x)	22.7	23.8	17.6	14.1
P/BVPS (x)	5.1	4.5	3.7	2.8
Mcap/Sales (x)	1.5	1.3	1.1	0.9
EV/EBITDA (x)	13.5	11.8	9.6	8.0
ROCE (%)	15.1%	16.0%	17.6%	18.8%
ROE (%)	25.5%	20.6%	23.1%	22.4%
EBITDA Mar (%)	13.2%	13.1%	13.3%	13.4%
PAT Mar (%)	6.6%	5.5%	6.2%	6.6%
Debt - Equity (x)	0.8	0.8	0.6	0.4

Source: Company, SKP Research

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



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Company Background

Skipper Limited, promoted by Mr S K Bansal of Kolkata, is India's third largest transmission tower manufacturer and tenth largest in the world, having production capacity of 2,30,000 MTPA. It also manufactures PVC pipes for water transportation in which it has aggressive growth plans.

Investment Rationale

Top-line to grow at a CAGR of ~19% over FY17-20E

- ▶ During Q3FY18, Skipper reported net sales of Rs 5,664.2 mn, registering growth of ~33.2% y-o-y basis due to healthy execution in the engineering segment. Engineering vertical grew by 29% y-o-y to Rs 4,863.3 mn, driven by robust volume growth and better realisations. Polymer segment grew at a muted ~6% y-o-y to Rs 540 mn as GST related disruptions continue to impact offtake from distributors and dealers.
- ▶ **Going forward, we expect Skipper sales to grow at a CAGR of ~19% during FY17-20E on the back of robust demand from Power Grid (PGCIL) and incremental capacity addition in the PVC pipe business, resulting into better capacity utilization and higher sales volume.**

Engineering Product Business: Strong order book; expansion underway to encash substantial growth opportunity

- ▶ Skipper has a strong order book of ~Rs 25 bn (around 1.7x FY17 Engineering product sales) of which, domestic and export order is 73% & 27% respectively (51% of Skipper's order book is made up of PGCIL orders). During the quarter, order inflows worth Rs 5.3 bn were accrued from PGCIL, SEB's and private sector players. Going forward, the company is also planning to increasingly bid for railway electrification projects.
- ▶ Skipper's JV with MetzgerPlas - Israeli kibbutz-based industry of micro-irrigation products is likely to be finalised in February 2018. The company has forayed into manufacturing of solar structures and successfully commenced trial production from its existing Uluberia plant. Going forward, the management plans to tie up with developers as against bidding for EPC contracts themselves.

Polymer division to grow over next 2 years post GST related hiccups in FY18

- ▶ The polymer pipe industry is likely to report flattish growth in FY18 as GST related disruptions still persists and majority of dealers hesitate to replenish stocks. However, growth likely to come back over next two quarters at pre GST level. Skipper is likely to registered sales growth of ~15% CAGR over the FY17-20E, backed by ramping up of manufacturing capacities leading to higher utilization levels coupled with lower working capital requirements, exploring newer markets, strengthening of dealers network and policy push by the government.

Margins to stabilize at ~13%+ with better operating leverage

- ▶ During Q3FY18, EBITDA margins contracted by 64 bps y-o-y to ~13.1% led by higher other expenses due to rise in export mix leading to higher freight and packaging cost. Engineering segment's EBIT margin improved by 42 bps to 13.1%.
- ▶ Post expansion of PVC pipe segment, Skipper will become a pan India player, which would lead to higher overhead spending, thereby restricting EBITDA margins at level of ~13%+ in the near term. The company has reduced its debt in FY17 by Rs 680 mn even after incurring capex of Rs 750 mn.

Valuation

- ▶ With higher order inflow from PGCIL, strong entry barriers, efficient working capital management, 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 20x of FY20E EPS and recommend a BUY on the stock with a target price of Rs 367/- (~42% upside) in 18 months.

Exhibit: Q3 FY18 Result Review

Figs. in INR Million

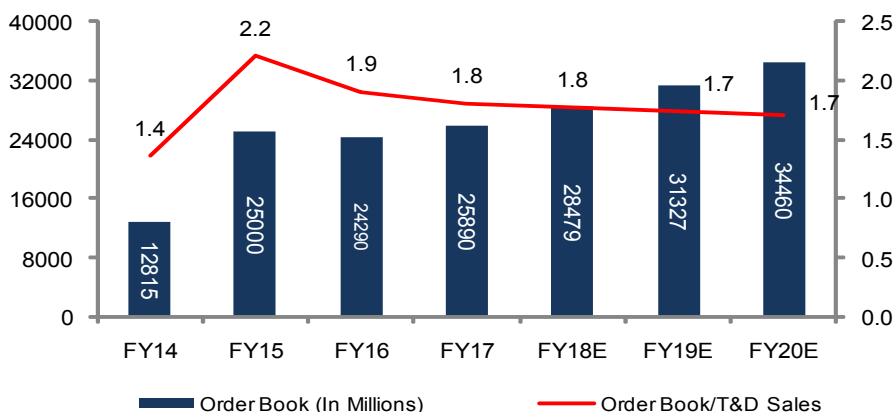
Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Net Sales	5,664.2	4,251.3	33.2%	5,156.2	9.9%	14,808.7	11,001.8	34.6%
Total Income	5,664.2	4,251.3	33.2%	5,156.2	9.9%	14,808.7	11,001.8	34.6%
Expenditure	4,923.5	3,668.1	34.2%	4,473.3	10.1%	12,869.0	9,289.9	38.5%
Material Consumed	3,692.6	2,947.4	25.3%	3,854.9	-4.2%	10,506.4	7,906.4	32.9%
<i>(as a % of Total Income)</i>	65.2%	69.3%		74.8%		70.9%	71.9%	
Purchase of Stock-in-Trade	209.7	(104.8)	-300.1%	(397.4)	-152.8%	(673.4)	(765.0)	-12.0%
<i>(as a % of Total Income)</i>	3.7%	-2.5%		-7.7%		-4.5%	-7.0%	
Employees Cost	235.5	193.7	21.6%	251.3	-6.3%	696.8	538.6	29.4%
<i>(as a % of Total Income)</i>	4.2%	4.6%		4.9%		4.7%	4.9%	
Other Expenses	785.6	631.7	24.4%	764.5	2.8%	2,339.2	1,609.9	45.3%
<i>(as a % of Total Income)</i>	13.9%	14.9%		14.8%		15.8%	14.6%	
EBITDA	740.8	583.3	27.0%	682.9	8.5%	1,939.7	1,711.9	13.3%
EBITDA Margin (%)	13.1%	13.7%	(64)Bps	13.2%	(17)Bps	13.1%	15.6%	(246)Bps
Depreciation	117.6	76.2	54.4%	120.5	-2.4%	345.6	215.4	60.4%
EBIT	623.2	507.1	22.9%	562.4	10.8%	1,594.1	1,496.5	6.5%
Other Income	3.3	8.1	-59.0%	3.3	1.2%	14.1	23.3	-39.5%
Interest Expense	176.3	190.0	-7.3%	200.3	-12.0%	545.1	534.8	1.9%
Profit Before Tax	450.2	325.1	38.5%	365.3	23.2%	1,063.1	985.0	7.9%
Income Tax	158.2	103.1	53.5%	133.1	18.9%	379.0	324.4	16.8%
<i>Effective Tax Rate (%)</i>	35.1%	31.7%	-	36.4%	-	35.6%	32.9%	-
Profit After Tax (PAT)	292.0	222.1	31.5%	232.2	25.7%	684.2	660.6	3.6%
PAT Margins (%)	5.2%	5.2%	(7)Bps	4.50%	65 Bps	4.62%	6.00%	(138)Bps
Diluted EPS	2.9	2.2	31.5%	2.3	25.6%	6.7	6.5	3.6%

Source: Company Data, SKP Research

Order Book is expected to grow at a CAGR of ~10% over FY17-20E

Exhibit: Trends in Orderbook

PGCIL contributes ~51% of the total order book, domestic-others constitutes of ~22% and export for ~27%.

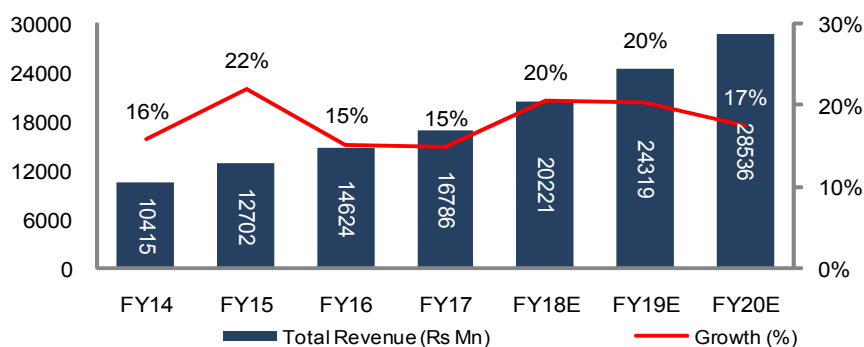


Source: Company, SKP Research

Top-line expected to grow at a CAGR of 19% over FY17-20E

Exhibit: Total Revenue & Revenue Growth (%)

Net Sales is expected to grow at a CAGR 19% to Rs 28,536 million over FY17-20E, backed by higher capacity utilization.

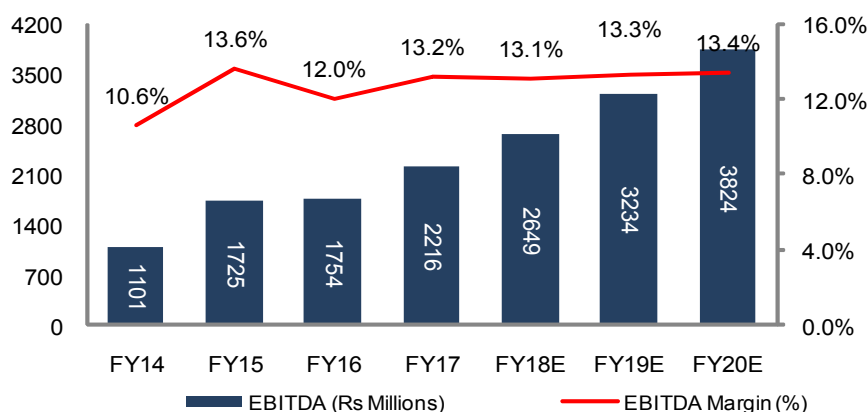


Source: SKP Research

Margins to stabilize at ~13%+ with better operating leverage

Exhibit: EBITDA & EBITDA Margin

EBITDA is expected to grow at a CAGR 20% to Rs 3824 million over FY17-20E

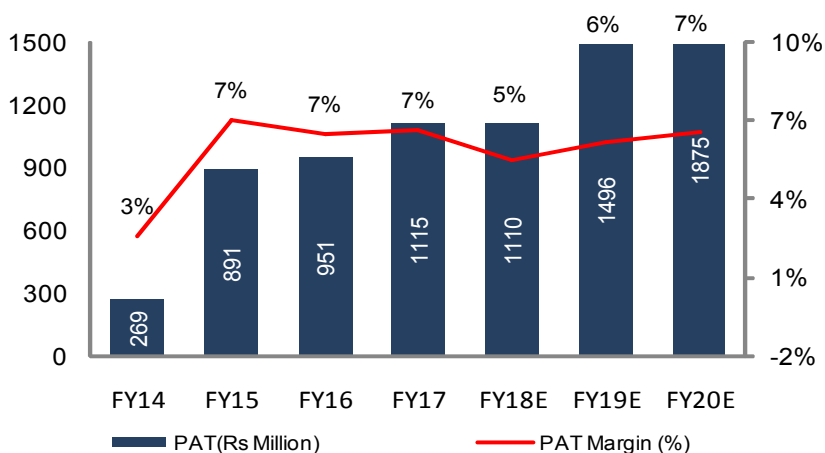


Source: SKP Research

PAT expected to grow at a CAGR of 19% over FY17-20E

Exhibit: PAT And PAT Margin (%)

PAT is expected to grow at a CAGR 19% percent to Rs 1875 million over FY17-20E

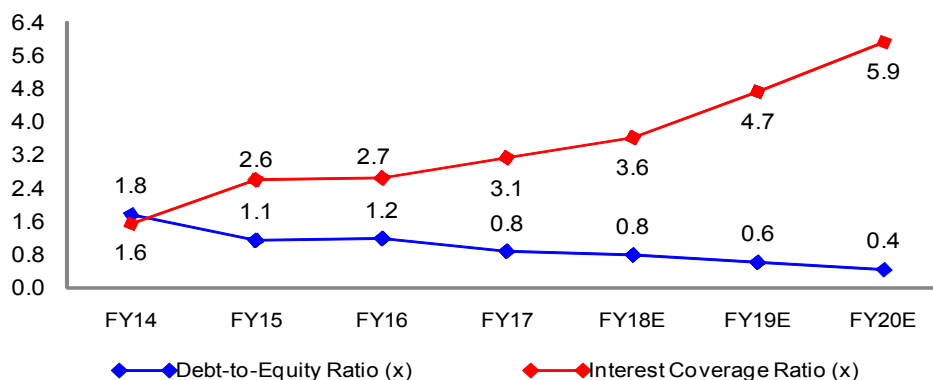


Source: SKP Research

D/E ratio improves to 0.4x in FY20E from a high of 1.6x in FY14

Exhibit: D/E Ratio and Interest Coverage Ratio

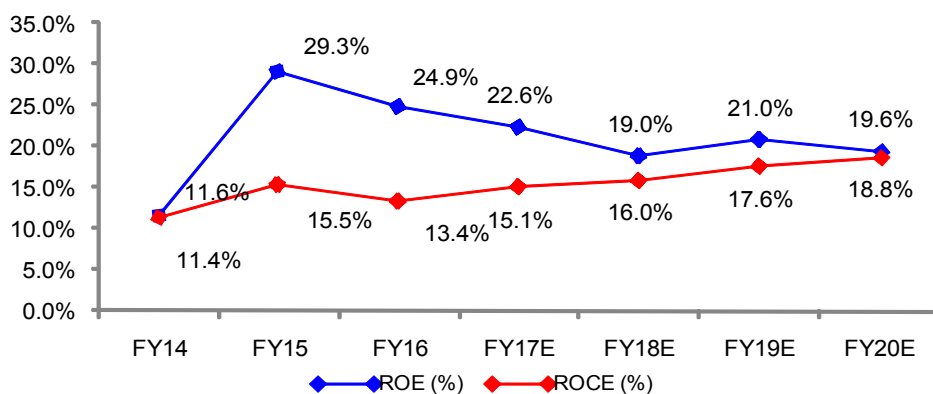
The company has reduced its debt in FY17 by Rs 680 mn even after incurring capex of Rs.750 mn. Debtor days also reduced on a y-o-y basis and led to D/E improving to 0.8 from 1.2 at the end of FY17.



Source:SKP Research

ROE to improve from 12% in FY14 to 20% by FY20E

Exhibit: Return Ratio



Source:SKP Research

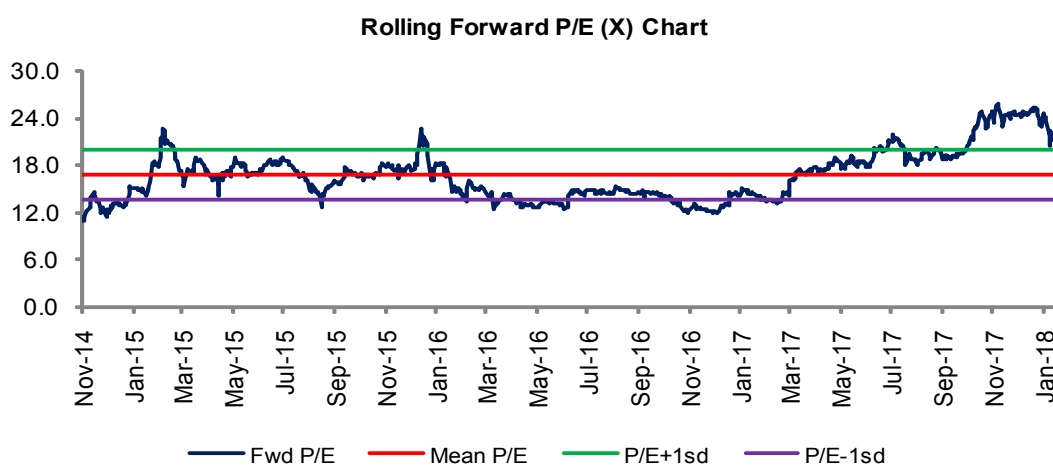
Key Concerns

- ▶ **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 27% of total order book. Any unfavorable USD-INR movement may have negative impact on the margins and profitability.

Valuations

- ▶ With Gol'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 20x of FY20E EPS and recommend a BUY on the stock with a target price of Rs 367/- (~42% upside) in 18 months.

Exhibit: Valuation Charts



Source: Company, SKP Research

Exhibit: Income Statement
Figures in INR Million

Particulars	FY17	FY18E	FY19E	FY20E
Total Income	16,785.7	20,221.3	24,319.3	28,536.0
<i>Growth (%)</i>	<i>14.8%</i>	<i>20.5%</i>	<i>20.3%</i>	<i>17.3%</i>
Expenditure	14,569.3	17,572.3	21,085.7	24,712.1
Material Cost	10,908.0	13,426.9	16,099.4	18,890.8
Traded goods	-	-	-	1.0
Change in Inventories	(821.5)	242.7	243.2	285.4
Employee Cost	731.5	950.4	1,143.0	1,341.2
Admin & Other Exp.	2,929.7	3,195.0	3,842.4	4,480.1
EBITDA	2,216.5	2,649.0	3,233.6	3,823.8
Depreciation	315.5	363.3	403.9	446.3
EBIT	1,901.0	2,285.6	2,829.7	3,377.5
Other Income	31.3	26.3	31.6	28.5
Interest Expense	611.0	630.4	598.0	569.5
Profit Before Tax (PBT)	1,565.2	1,681.6	2,263.3	2,836.6
Income Tax	450.2	571.7	767.3	961.6
Profit After Tax (PAT)	1,115.0	1,109.8	1,496.1	1,875.0
<i>Growth (%)</i>	<i>17.2%</i>	<i>-0.5%</i>	<i>34.8%</i>	<i>25.3%</i>
Diluted EPS	10.9	10.8	14.6	18.3

Exhibit: Cash Flow
Figures in INR Million

Particulars	FY17	FY18E	FY19E	FY20E
Profit Before Tax (PBT)	1,565.2	1,681.6	2,263.3	2,836.6
Depreciation	315.5	363.3	403.9	446.3
Finance Costs	26.6	15.0	15.0	15.0
Chg. in Working Capital	(280.7)	(1,501.8)	(1,593.3)	(1,731.1)
Direct Taxes Paid	452.3	571.7	767.3	961.6
Other Charges	631.2	630.4	598.0	569.5
Operating Cash Flows	1,752.3	586.7	889.6	1,144.7
Capital Expenditure	(939.2)	(486.7)	(460.7)	(460.8)
Sale of Fixed Assets	117.7	-	-	-
Others	24.3	-	-	-
Investing Cash Flows	(797.3)	(486.7)	(460.7)	(460.8)
Changes in Equity	-	-	-	-
Inc / (Dec) in Debt	(914.2)	337.8	(215.3)	(208.4)
Dividend Paid (inc tax)	(172.4)	(173.9)	(184.2)	(194.4)
Financing Cash Flows	(1,086.6)	163.8	(399.4)	(402.8)
Chg. in Cash & Cash Eqv	(131.5)	263.9	29.5	281.1
Opening Cash Balance	146.5	14.9	278.9	308.4
Balances with Banks	102.9	263.9	29.5	281.1
Closing Cash Balance	249.3	278.9	308.4	589.5

Source: SKP Research

Exhibit: Balance Sheet
Figures in INR Million

Particulars	FY17	FY18E	FY19E	FY20E
Share Capital	102.3	102.3	102.3	102.3
Reserve & Surplus	4,840.6	5,746.1	7,025.8	8,672.4
Shareholders Funds	4,943.0	5,848.4	7,128.1	8,774.7
Total Debt	4,158.6	4,496.4	4,281.1	4,072.7
Deferred Tax Liab	391.0	391.0	391.0	391.0
Liabilities & Provisions	3,817.1	4,563.0	5,081.0	5,827.4
Total Liabilities	13,309.6	15,298.8	16,881.2	19,065.7
Net Block inc. Capital WIP	4786.0	5264.2	5510.2	5713.9
Other Non Current Assets	-	-	-	-
Non-Current Assets	8,523.6	10,034.7	11,371.0	13,351.8
Inventories	3,681.8	4,734.5	5,952.2	7,199.1
Sundry Debtors	3,729.7	4,026.4	4,168.8	4,431.1
Cash & Bank Balance	249.3	278.9	308.4	589.5
Other Current Assets	-	-	-	-
Loans & Advances	862.9	994.9	941.6	1,132.2
Non Current Investments	-	-	-	-
Total Assets	13,309.6	15,298.8	16,881.2	19,065.7

Exhibit: Ratio Analysis

Particulars	FY17	FY18E	FY19E	FY20E
Earning Ratios (%)				
EBITDA Margin (%)	13.2%	13.1%	13.3%	13.4%
PAT Margins (%)	6.6%	5.5%	6.2%	6.6%
ROCE (%)	15.1%	16.0%	17.6%	18.8%
ROE (%)	25.5%	20.6%	23.1%	22.4%
Per Share Data (INR)				
Diluted EPS	10.9	10.8	14.6	18.3
Cash EPS (CEPS)	14.0	14.4	18.6	22.7
BVPS	48.3	57.2	69.7	93.7
Valuation Ratios (x)				
P/E	22.7	23.8	17.6	14.1
Price/BVPS	5.1	4.5	3.7	2.8
EV/Sales	1.8	1.5	1.3	1.1
EV/EBITDA	13.5	11.8	9.6	8.0
Dividend Yield (%)	0.6%	0.7%	0.7%	0.7%
Balance Sheet Ratios				
Debt - Equity	0.8	0.8	0.6	0.4
Current Ratio	1.4	1.4	1.5	1.6
Fixed Asset Turn. Ratios	1.9	2.0	2.3	2.5

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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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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