

Skipper Ltd

HOLD



Asian Markets Securities Pvt. Ltd.

Engineering segment, led to strong revenue growth....

Institutional Research

CMP (Rs)	215
Target (Rs)	225

Nifty: 9,916; Sensex: 31,662

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs2)	102.3
Market Cap (Rs bn)	22.0
52-Week High / Low	240 / 125
3-M Daily Avg. Vol.	1,37,37

Relative Performance

(%)	1m	3m	12m
SKIPPER	(3.5)	5.1	34.5
NIFTY	(1.5)	2.9	10.9
Sensex	(2.1)	1.5	9.3

Shareholding Pattern

(%)	Dec16	Mar17	Jun17
Promoter	72.4	70.4	70.4
FII	1.5	1.5	2.0
DII	4.6	8.6	8.7
Others	21.5	19.5	18.9

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Skipper Limited (Skipper); reported strong 1QFY18 revenues with 40.3% yoy growth led by strong Engineering segment execution. Though, Adjusted PAT grew strong by 51.6% due to lower interest and higher sales; EBITDAM declined on account of lower PVC margin on account of higher over heads and lower EBITM in engineering due to higher export revenue. The revenue in Engineering Products Business increased robust by 42.6% yoy due to better execution and booking of revenue from carry forward WIP during FY17. PVC business segment reported muted revenue growth of 3.2% on account of GST roll out. Order book stands healthy at 26.4bn as on date with 1.9x book-to-bill. Further the bidding pipeline continues to be strong with Rs13-14 bn worth of bids submitted. Management expects revenue Volume/Value growth of 15%/18% and in Engineering in FY18. We revise our earnings estimates downwards for FY18E by 6.4% and FY19E by 4.5%; factoring lower margins in PVC division. We arrived at a revised EPS of Rs 11.7 in FY18E, Rs 15.0 in FY19E. Given the strong business model, healthy EBITDA margins, expansion in PVC segment, and excellent macro environment in power T&D space; we remain positive on the business. However due to recent price performance; we recommend HOLD rating with a revised TP of Rs 225, based on 15x PER of FY19E EPS.

1QFY18 reported Strong revenue and PAT growth; EBITDAM declined: Revenue grew by 40.3% yoy to Rs3.98bn, on the back of strong 42% yoy growth in Engineering Products segment; whereas PVC segment revenue remain flat yoy. EBITDA increased by 31.2% yoy to Rs 516mn, While EBITDAM decline by 90bp on account of EBITM decline in all segment. Adjusted PAT came in higher at Rs 160mn registering a growth of 51.6% yoy; owing to higher sales and lower interest cost. Engineering Products segment reported revenue growth of 42% yoy to Rs3.6bn on account of Rs500mn of revenue booking from Q4FY17 WIP. EBIT increased by 33.3% yoy to Rs439mn, whereas EBITM decline by 79bp. EBITM declined due to higher exports. PVC segment revenue grew by flat at 3.2% yoy to Rs433mn on account of GST rollout and EBIT decreased by 14.9% yoy, EBITM declined by 151bp to 7.1% Vs 8.6 yoy due to higher overheads and lower utilisation. Infrastructure segment revenue grew healthy at 124.4% yoy to Rs243mn, with an EBITM of 12.1% down by 153bp yoy.

New Business Expansion: The Company is foraying into the Solar Structure's market. Products to be manufactured are ground based Module Mounting structures, Roof Top Mounting structures, Module Mounting Accessories & Seasonal Tilt Structures from the unit. The production will be executed from the existing Uluberia plant. All latest automated machineries have been already installed with appointment of experienced and quality manpower. Management indicating there will be no additional capex required for this new business. This will be a part of the engineering product segment and pose healthy future growth opportunity.

Order book status: Skipper has current order book of over Rs 26.4bn, amounting to a book-to-bill of 1.9x FY17 revenue. Order inflow during Q1FY18 stands healthy at Rs3.57bn. New orders include, Rs1.03bn from PGCIL & Rs606.9mn from Export of transmission tower supply from PGCIL. Other orders came from Transmission Corporation of Telangana Limited, Uttar Pradesh Power Transmission Corporation Limited and for various supplies across Asia & Africa. We expect healthy order inflow from PGCIL, SEB tenders and from International region to provide a healthy growth visibility. Company has already submitted bids worth Rs13-14bn worth of orders.

Outlook and Valuations: We estimate the revenue and Adj PAT CAGR of 17.8% and 25.3% during FY17-19E. Return ratios to improve in FY19E with ROCE at 24.3% and ROE at 23.6%. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, opportunity in exports, benefits of backwards integration, expansion in capacities, strong return ratios, healthy growth and young management team; we believe SKIPPER has a strong business prospects. However given the recent price performance we recommend HOLD rating with a revised TP of Rs 225, based on 15x PER of FY19E EPS.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Sales	12,702	14,624	16,786	20,115	23,276
yoy (%)	22.0	15.1	14.8	19.8	15.7
EBITDA	1,731	2,011	2,267	2,706	3,189
yoy (%)	57.1	16.2	12.7	19.3	17.9
Adjusted PAT	617	831	977	1,197	1,533
yoy (%)	231.4	34.6	17.6	22.5	28.1
Equity	102	102	102	102	102
EPS	6.0	8.1	9.6	11.7	15.0

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDAM (%)	13.6	13.5	13.5	13.5	13.7
NPM (%)	4.9	5.6	5.8	5.9	6.6
PER (x)	24.7	23.2	19.8	18.4	14.4
P/BV (x)	7.2	5.8	4.5	3.7	3.1
EV/Sales (x)	2.0	1.8	1.6	1.3	1.1
EV/EBITDA (x)	14.6	13.0	11.5	9.7	8.2
RoACE (%)	21.7	22.9	21.4	22.7	24.3
RoANW (%)	33.3	27.8	25.5	22.1	23.6

Exhibit 3: Skipper Ltd: 1Q FY18 quarterly results

Y/E March (Rs mn)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	yoy(%)	qoq (%)	FY16	FY17	yoy (%)
Net Sales	2,842	4,011	4,306	5,674	3,988	40.3	(29.7)	14,881	16,836	13.1
Other Operational Income	-	1	-	-	-	-	-	-	-	-
Total Sales	2,842	4,013	4,306	5,674	3,988	40.3	(29.7)	14,881	16,836	13.1
Stock Adjustment	(169)	(491)	(105)	(56)	(486)	187.0	760.5	(53)	(821)	1,446.8
Cons. of Raw Materials	1,940	3,019	2,947	3,823	2,956	52.4	(22.7)	9,538	11,730	23.0
Employee Cost	154	192	193	192	210	36.2	9.3	500	732	46.4
Other Expenditure	524	752	700	966	792	51.1	(18.0)	2,885	2,930	1.5
Total Expenditure	2,449	3,472	3,736	4,925	3,472	41.8	(29.5)	12,870	14,569	13.2
EBITDA	393	541	570	749	516	31.2	(31.1)	2,011	2,267	12.7
Add: Other Income	8	7	8	8	8	(4.2)	(8.4)	52	31	(39.5)
Interest	179	150	177	124	169	(5.7)	36.2	570	611	7.2
Depreciation	68	72	76	100	107	59.2	7.3	241	315	30.8
Excp. Item	-	15	-	164	-	-	(100.0)	181	193	6.6
Profit Before Tax	155	341	325	697	248	59.8	(64.5)	1,433	1,565	9.2
Provision for Taxation	50	114	102	169	88	77.3	(48.0)	482	450	(6.5)
PAT	105	226	223	528	160	51.6	(69.7)	951	1,115	17.2
Extra Ordinary Income	-	10	-	124	-	-	-	120	138	14.3
Adj Net Profit	105	217	223	404	160	51.6	(60.4)	831	977	17.6
Equity Capital (FV Rs 1)	102	102	102	102	102			102	102	
Basic EPS (Rs)	1.0	2.2	2.2	5.2	1.6			9.3	10.9	
Adjusted EPS (In Rs)	1.0	2.1	2.2	4.0	1.57			8.1	9.6	
EBITDA (%)	13.8	13.5	13.2	13.2	12.9	(90bp)	(26bp)	13.5	13.5	(5bp)
PAT (%)	3.7	5.1	5.2	4.9	4.0	30bp	(93bp)	4.8	5.0	22bp
Tax / PBT (%)	32.0	33.5	31.3	24.2	35.5	350bp	1124bp	33.6	28.8	(485bp)
Employee Cost/Net Sales(%)	5.4	4.8	4.5	3.4	5.3	(16bp)	188bp	3.4	4.3	99bp
Others Exp/Net sales (%)	18.4	18.8	16.3	17.0	19.9	141bp	283bp	19.4	17.4	(199bp)
Raw Mat. / Net Sales (%)	62.3	63.0	66.0	66.4	61.9	(36bp)	(445bp)	63.7	64.8	105bp

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 1Q FY18 Segmental finance

Y/E March(Rs mn)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	yoy (%)	qoq (%)	FY16	FY17	yoy%
Segment Revenue										
Engineering Products	2571	3450	3571	4664	3651	42.0	(21.7)	13,079	14,043	7.4
PVC products	420	437	470	695	433	3.2	(37.7)	1525	1980	29.8
Infrastructure Projects	108	125	265	315	243	124.4	(22.8)	277	813	193.9
Total Segment Revenue	3099	4013	4306	5674	4327	39.6	(23.7)	14881	16836	13.1
Segment Results										
Engineering Products	330	469	466	609	439	33.3	(27.8)	1756	1889	7.6
PVC products	36	39	32	58	31	(14.9)	(46.5)	165	165	0.2
Infrastructure Projects	15	17	35	45	29	99.3	(33.9)	43	111	159.5
Total	381	525	534	711	500	31.2	(29.7)	1964	2166	10.3
Less: Interest (Net)	171	150	170	119	164	(4.1)	37.9	526	584	11.0
Other Unallocable Exp.	55	34	39	-104	88	60.8	(184.2)	5	16	254.7
Profit Before Tax	155	341	325	697	248	59.8	(64.5)	1433	1565	9.2
EBIT Margin										
Engineering Products	12.8	13.6	13.1	13.1	12.0	(79bp)	(102bp)	13.4	13.5	3bp
PVC products	8.6	8.9	6.9	8.3	7.1	(151bp)	(117bp)	10.8	8.4	(247bp)
Infrastructure Projects	13.7	13.2	13.4	14.2	12.1	(153bp)	(203bp)	15.5	13.7	(181bp)
Total EBIT Margin	12.3	13.1	12.4	12.5	11.6	(74bp)	(99bp)	13.2	12.9	(33bp)
ROCE (%)										
Engineering Products	4.4	7.1	5.8	9.1	5.4	104bp	(368bp)	25.8	28.2	237bp
PVC products	2.7	2.2	1.7	2.8	1.5	(123bp)	(135bp)	14.0	8.1	(591bp)
Infrastructure Projects	4.1	4.3	6.4	7.8	4.9	86bp	(282bp)	13.5	19.3	584bp
Total ROCE	4.1	6.0	5.1	7.6	4.6	51bp	(301bp)	23.7	23.3	(43bp)

Source: Company, AMSEC Research

Concall Highlights

- In FY17, Skipper has expanded its PVC capacity to 51,000 TPA and engineering capacity to 2,30,000 TPA with a total capex of Rs850. The new capacity has started operation in March 2017.
- Further in FY18, management is expecting to spend Rs850 mn as capex. The capex includes expanding capacity of engineering segment by 15% and regular capex. The capex also includes Rs250mn to be spent towards a facility for tower testing.
- Management guidance for FY18 are Engineering segment volume growth of 15% and value growth of 17-18% in FY18E. Company iterated that it will maintain the margin in this segment. Order inflow is expected to be similar to FY18 revenues.
- Company entered into new business of solar power structures. The opportunity is huge and it does not need any major capex to cater to this segment. Approximately 1MW of solar capacity requires 40-45 tonnes of steel structures.
- Company is also looking at railway segment as new opportunity for its tower business.
- PVS segment sales impacted due to destocking by dealers owing to GST rollout. The same has impacted the EBITM too. However company expects margins in this segment to go up to 14% in the long run once the business gets established in 3-4 years.
- Current debt is more or less same as FY17 end. This include Rs2bn of long term debt rest is the term loans. The cost of debt is ~8-9%. However the finance cost do includes cost incurred for bill discounting and other bank charges too reflecting high interest cost.

Exhibit 5: Quarterly Revenue Trend

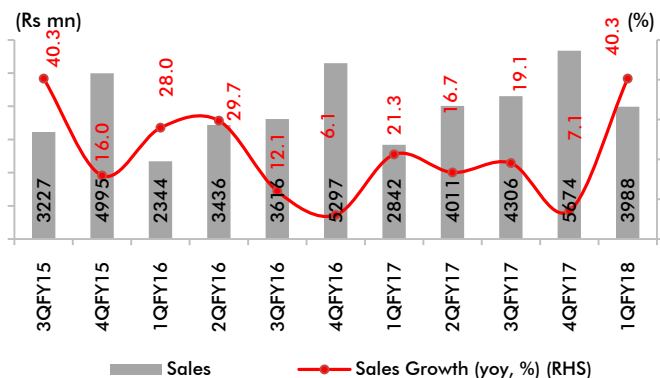


Exhibit 6: Quarterly revenue breakdown (%)

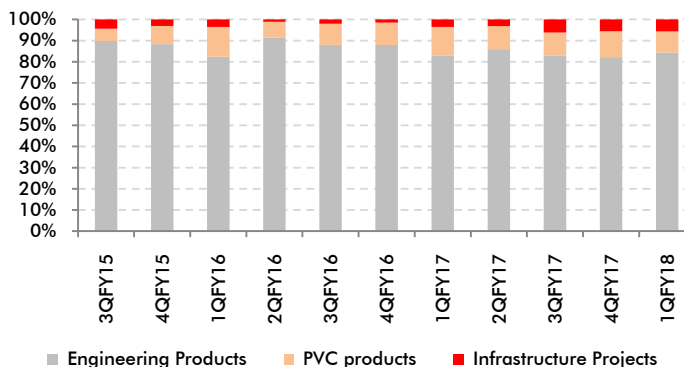


Exhibit 7: Quarterly EBITDA Trend

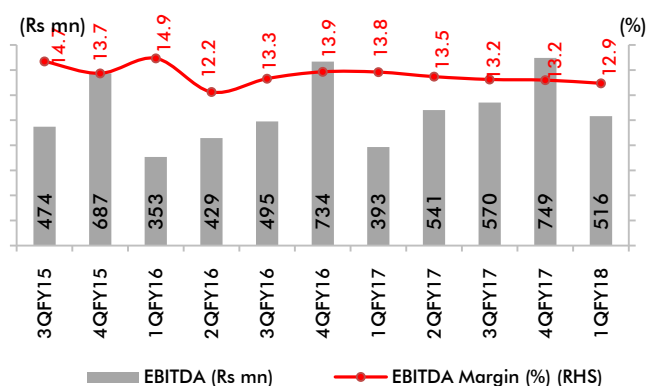


Exhibit 8: Quarterly PAT Trend

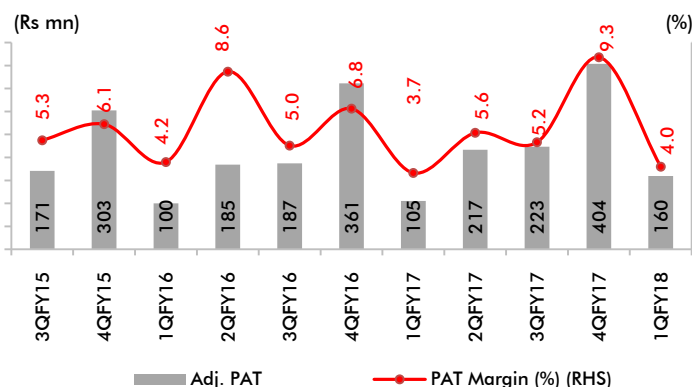


Exhibit 9: Quarterly Engineering Products trend

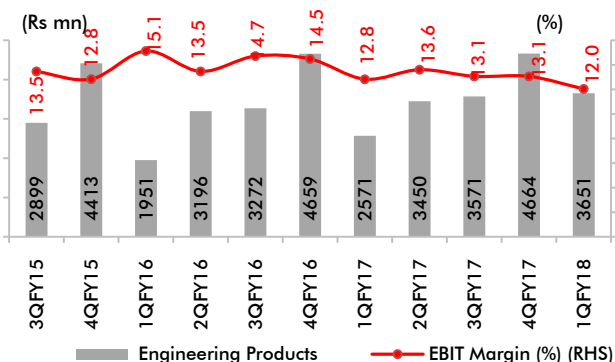


Exhibit 10: Quarterly PVC products trend

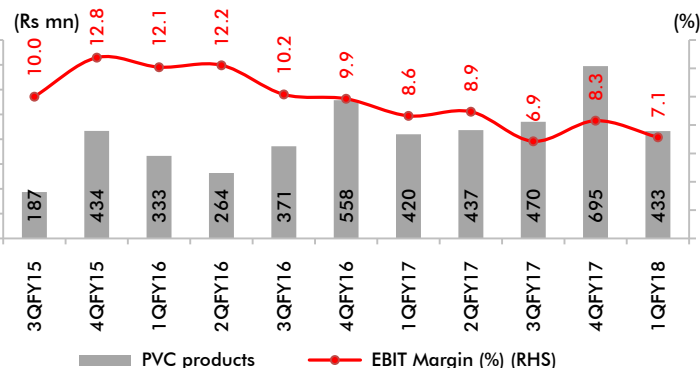
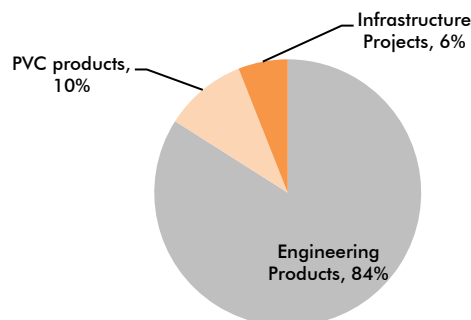


Exhibit 11: Change in Estimates

(Rs mn)	Old Estimates		Revised Estimates		% Change	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	19,975	23335	20,115	23276	0.7	(0.3)
EBITDA	2,767	3244	2,706	3189	(2.2)	(1.7)
Adj. PAT	1,279	1607	1,197	1533	(6.4)	(4.6)
EPS (Rs)	12.5	15.7	11.7	15.0	(6.4)	(4.5)
PT (Rs)		236		225		
Rating		BUY		HOLD		

Exhibit 12: Revenue Mix - Q1 FY18



Source: AMSEC Research

Financials (Standalone)

(Rs mn)

Profit & Loss Account						Cash Flow Statement					
Particulars	FY15	FY16	FY17	FY18E	FY19E	Particulars	FY15	FY16	FY17	FY18E	FY19E
Net sales	12,702	14,624	16,786	20,115	23,276	PBT	1,366	1,433	1,565	1,711	2,191
Other operating income	6	257	51	-	-	Non-cash adjustments	203	189	284	379	418
Consumption of materials	8,797	9,485	10,908	13,678	15,828	Changes in working capital	187	(1,043)	(498)	(680)	(961)
Staff Expenses	341	500	732	845	954	Interest Paid	583	570	611	616	581
Other operating expenses	1,838	2,885	2,930	2,887	3,305	Tax Paid & Other Adj	(449)	(439)	(292)	(513)	(657)
Total Expenditure	10,976	12,870	14,569	17,410	20,087	Cashflow from operations	1,889	711	1,670	1,512	1,570
EBITDA	1,731	2,011	2,267	2,706	3,189	Capital exp. & Advances	(304)	(926)	(847)	(856)	(650)
Depreciation	220	241	315	409	448	Change in investments	-	-	-	-	-
Operating profit	1,512	1,770	1,952	2,297	2,741	Other investing cashflow	17	52	31	30	30
Other income	17	52	31	30	30	Cashflow from investing	(287)	(874)	(816)	(826)	(620)
EBIT	1,528	1,822	1,983	2,327	2,771	Issue of equity	0	-	-	-	-
Interest	583	570	611	616	581	Issue/repay debt	(566)	838	(300)	200	(100)
Exceptional items	420	181	193	-	-	Interest Paid	(583)	(570)	(611)	(616)	(581)
Profit before tax	1,366	1,433	1,565	1,711	2,191	Dividends paid	(156)	(168)	(192)	(263)	(311)
Tax	474	482	450	513	657	Other financing cashflow	-	-	-	-	-
Minority interest	-	-	-	-	-	Cashflow from financing	(1,305)	100	(1,103)	(680)	(992)
Reported net profit	892	951	1,115	1,197	1,533	Change in cash & cash eq	298	(63)	(249)	6	(41)
EO Items	274	120	138	-	-	Opening cash & cash eq	263	561	498	249	255
Adjusted net profit	617	831	977	1,197	1,533	Closing cash & cash eq	561	498	249	255	214
Share O/s mn	102	102	102	102	102	Free cash flow to firm	1,586	(215)	823	656	920
EPS Rs (adjusted)	6.0	8.1	9.6	11.7	15.0						

Balance Sheet						Ratios					
Particulars	FY15	FY16	FY17	FY18E	FY19E	Particulars	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS :						PER SHARE					
Share Capital	102	102	102	102	102	EPS Rs (adjusted)	6.0	8.1	9.6	11.7	15.0
Reserves	2,936	3,713	4,841	5,775	6,997	CEPS Rs	8.2	10.5	12.6	15.7	19.4
Minority Interest	-	-	-	-	-	Book Value Rs	29.7	37.3	48.3	57.4	69.4
Total Shareholders Funds	3,039	3,815	4,943	5,877	7,099	VALUATION					
Non-Current Liabilities	1,974	2,311	2,171	2,171	2,171	EV / Net Sales	2.0	1.8	1.6	1.3	1.1
Long term borrowings	1,707	1,983	1,758	1,758	1,758	EV / EBITDA	14.6	13.0	11.5	9.7	8.2
Deferred tax liability	265	315	391	391	391	P / E Ratio	24.7	23.2	19.8	18.4	14.4
Other long term liabilities	-	-	-	-	-	P / BV Ratio	7.2	5.8	4.5	3.7	3.1
Long-term provisions	2	13	22	22	22	GROWTH YOY%					
Current Liabilities	5,625	5,776	6,196	7,401	7,817	Sales Growth	22.0	15.1	14.8	19.8	15.7
Short term borrowings	1,724	2,521	2,400	2,600	2,500	EBITDA Growth	57.1	16.2	12.7	19.3	17.9
Trade payables	2,415	2,124	2,891	3,417	3,826	Net Profit Growth	231.4	34.6	17.6	22.5	28.1
Other current liabilities	1,277	938	899	1,328	1,427	Gross Fixed Asset Growth	8.9	13.1	22.7	14.3	9.5
Short term provisions	208	193	5	55	64	PROFITABILITY (%)					
Total Equity & Liabilities	10,637	11,903	13,310	15,449	17,087	Gross Profit/ Net sales	22.5	27.6	25.0	23.5	23.7
APPLICATION OF FUNDS :						EBITDA / Net Sales	13.6	13.5	13.5	13.5	13.7
Non Current Assets	3,578	4,274	4,936	5,384	5,586	EBIT / Net sales	11.9	12.1	11.6	11.4	11.8
Gross block (Total)	4,295	4,856	5,959	6,809	7,459	NPM / Total income	4.9	5.6	5.8	5.9	6.6
Less : accumulated depreciation	782	1,004	1,317	1,725	2,173	Raw Material/Net Sales	69.2	63.7	64.8	68.0	68.0
Net block (Total)	3,513	3,852	4,642	5,084	5,286	Int/PBIT	38.5	32.2	31.3	26.8	21.2
Capital work in progress	35	399	144	150	150	RONW	33.3	27.8	25.5	22.1	23.6
Noncurrent investment	-	-	-	-	-	ROCE	21.7	22.9	21.4	22.7	24.3
Long term loans and advances	-	-	-	-	-	Tax / PBT	34.7	33.6	28.8	30.0	30.0
Other non-current assets	31	22	150	150	150	TURNOVER					
Current Assets	7,059	7,629	8,374	10,065	11,501	Net Working Cycle	87	99	101	97	99
Current investment	-	-	-	-	-	Debtors Velocity (Days)	108	91	81	82	80
Inventories	2,282	2,500	3,682	4,409	5,102	Inventory (Days)	76	71	92	92	93
Sundry debtors	3,758	3,724	3,730	4,519	5,102	Creditors Velocity (Days)	100	82	97	91	88
Cash and bank	561	498	249	255	214	Current Ratio	2.0	2.5	2.4	2.2	2.3
Short loans and advances	458	907	713	882	1,084	Quick Ratio	1.4	1.7	1.3	1.3	1.3
Others current assets	-	-	-	-	-	LIQUIDITY					
Total Assets	10,637	11,903	13,310	15,449	17,087	Gross Asset Ratio	3.1	3.3	3.1	3.2	3.3
						Total Asset Ratio	1.3	1.3	1.3	1.4	1.4
						Net Debt-Equity Ratio	1.1	1.1	0.8	0.7	0.6
						Interest Coverage (x)	2.6	3.2	3.2	3.8	4.8
						PAYOUT					
Net Working Capital*	3,024	4,047	4,665	5,345	6,307	Payout %	25	20	20	22	20
Total Gross Debt*	3,829	4,667	4,366	4,566	4,466	Dividend %	130	140	160	220	260
Total Net Debt	3,268	4,169	4,117	4,311	4,253	Yield %	0.6	0.7	0.7	1.0	1.2
Capital Employed*	7,132	8,797	9,700	10,834	11,957						

Source: Company, AMSEC Research

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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