

17 May 2017

Skipper

Healthy order book; upgrading to a Buy

In 4QFY17, net sales grew by 10% yoy to ₹5.8 bn. Engineering products (transmission towers) grew 1%. Following capacity additions, PVC products grew 25% yoy. The EBITDA margin expanded 170bps to 15.6%. Greater profitability in transmission towers and infra projects led to a better margin. Adj. PAT grew 46% to ₹528m. In FY17, net sales grew 14% yoy to ₹17bn. Transmission towers grew 7.4%, PVC products 30%. Adj. PAT grew 45% yoy to ₹1.1bn. Robust transmission capex will keep order inflows healthy. With greater revenue assurance and rising transmission capex, we believe a re-rating is likely along with strong, 20%, earnings CAGR in FY17-19. Hence, we upgrade our recommendation to a Buy, with a revised target of ₹271 (17x FY19e earnings).

Healthy order book. The order book is ₹26bn, of which, 51% is from PGCIL, 22% from domestic operators; exports brought 27%. Order inflows were ₹14bn. The company has exported to newer areas (Botswana, Philippines) with orders of ₹1.3bn. The Latin America order (yet to be executed) of ~₹4bn is included in the order book and management expects to execute it in the next two years. The company has also received orders for telecoms tower poles, of ₹700m-800m.

Strong sales growth, steady margins. The healthy order book assures strong sales growth. EBITDA/ ton (now ₹10,900) will improve with higher steel billet prices. However, we have assumed flattish EBITDA/ton and expect it to be flattish over the next two years.

Valuation re-rating, strong earnings growth. With increasing power transmission capex, healthy growth in order books of transmission companies are likely to continue, resulting in better revenue assurance. Skipper, with its location advantage will likely have better inflow growth. We expect margins to hold at present levels and strong growth in earnings. A re-rating is likely because of the strong growth prospects. Hence, we upgrade our rating to a Buy, with a revised TP of ₹271 (17x FY19e earnings). **Risk.** Any significant delay in award of orders.

Key financials (YE Mar)	FY15	FY16	FY17	FY18e	FY19e
Sales (₹ m)	12,708	14,881	17,030	20,254	23,775
Net profit (₹ m)	472	770	1,115	1,324	1,630
EPS (₹)	4.6	7.5	10.9	12.9	15.9
Growth (%)	75.3	63.2	44.9	18.7	23.1
PE (x)	44.5	27.3	18.8	15.8	12.9
PBV (x)	6.9	5.5	4.2	3.4	2.8
RoE (%)	17.6	22.5	25.5	24.0	23.9
RoCE (%)	21.7	22.8	23.8	25.0	26.0
Dividend yield (%)	0.6	0.7	0.7	0.7	0.7
Net debt/equity (x)	1.1	1.1	0.8	0.7	0.5

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: ₹271

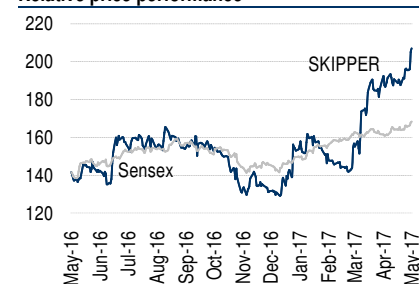
Share Price: ₹205

Key data	SKIPPER IN / SKIP.BO
52-week high / low	₹214/ ₹125
Sensex / Nifty	30659/9526
3-m average volume	\$0.5m
Market cap	₹21bn/\$330.6m
Shares outstanding	102m

Shareholding pattern (%)	Mar'17	Dec'16	Sep'16
Promoters	70.4	72.4	72.4
- of which, Pledged	-	-	-
Free Float	29.6	27.6	27.6
- Foreign Institutions	1.5	1.5	1.5
- Domestic Institutions	10.9	6.9	3.1
- Public	17.2	19.2	23.0

Estimates revision (%)	FY18e	FY19e
Sales	-2.2	0.9
EBITDA	1.9	4.7
EPS	4.8	9.3

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Net revenues	12,708	14,881	17,030	20,254	23,775
Revenue growth (%)	22.0	17.1	14.4	18.9	17.4
- Oper. expenses	10,976	12,870	14,569	17,383	20,414
EBIDTA	1,732	2,011	2,461	2,871	3,361
EBITDA margins (%)	13.6	13.5	14.4	14.2	14.1
- Interest	583	570	611	593	611
- Depreciation	220	241	315	322	364
+ Other income	17	52	31	41	72
- Tax	474	482	450	673	828
Effective tax rate (%)	50.1	38.5	28.8	33.7	33.7
+ Associates / (minorities)	-	-	-	-	-
Adjusted PAT	472	770	1,115	1,324	1,630
+ Extraordinary items	420	181	-	-	-
Reported PAT	892	951	1,115	1,324	1,630
Adj. FDEPS (₹ / sh)	4.6	7.5	10.9	12.9	15.9
Adj. FDEPS growth (%)	75.3	63.2	44.9	18.7	23.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Share capital	102	102	102	102	102
Reserves & surplus	2,936	3,713	4,841	5,981	7,427
Net worth	3,039	3,815	4,943	6,083	7,529
Total debt	3,829	4,682	4,159	4,793	4,422
Minority interest	-	-	-	-	-
Def. tax liab. (net)	265	315	391	391	391
Capital employed	7,132	8,812	9,493	11,267	12,342
Net fixed assets	3,535	4,239	4,775	5,323	5,474
Intangible assets	12	12	10	8	4
Investments	-	-	-	-	-
- of which, Liquid	-	-	-	-	-
Working capital	3,024	4,062	4,457	5,297	5,832
Cash	561	498	249	640	1,032
Capital employed	7,132	8,812	9,492	11,268	12,342
Working capital (days)	87	100	96	95	90
Book value (₹ / sh)	29.7	37.3	48.3	59.5	73.6

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Adjusted PAT	892	951	1,115	1,324	1,630
+ Non-cash items	220	241	315	322	364
Cash profit	1,112	1,192	1,431	1,646	1,994
- Incr. / (decr.) in WC	-170	1,038	395	839	535
Operating cash-flow	1,281	154	1,036	806	1,459
- Capex	299	946	849	867	511
Free cash-flow	982	-792	187	-61	948
- Dividend	160	172	184	184	184
+ Equity raised	-5	-2	197	-	-
+ Debt raised	-519	903	-447	635	-371
- Investments	-	-	-	-	-
- Misc. items	-	-	-	-	-
Net cash-flow	298	-63	-248	390	393
+ Op. cash & bank bal.	263	561	498	249	640
Cl. Cash & bank bal.	561	498	250	639	1,033

Source: Company, Anand Rathi Research

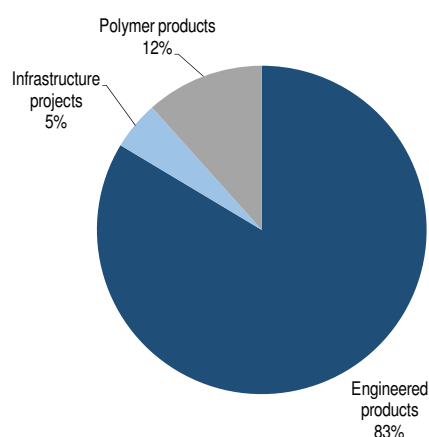
Fig 4 – Ratio analysis @ ₹205

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	44.5	27.3	18.8	15.8	12.9
Cash P/E (x)	30.3	20.8	14.7	12.7	10.5
EV / EBITDA (x)	14.0	12.5	10.1	8.8	7.3
EV / sales (x)	1.9	1.7	1.5	1.2	1.0
P/B (x)	6.9	5.5	4.2	3.4	2.8
RoE (%)	17.6	22.5	25.5	24.0	23.9
RoCE (%)	21.7	22.8	23.8	25.0	26.0
Dividend yield (%)	0.6	0.7	0.7	0.7	0.7
Dividend payout (%)	33.9	22.4	16.5	13.9	11.3
Net debt / equity (x)	1.1	1.1	0.8	0.7	0.5
Debtor (days)	108	91	80	80	80
Inventory (days)	66	61	79	78	72
Payables (days)	69	52	62	66	66
Interest cover (x)	2.6	3.2	3.6	4.4	5.0
Fixed asset T/O (x)	3.6	3.5	3.6	3.8	4.3

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – FY17 revenue break-up


Source: Company

Result Highlights

- Management indicated that capacity utilisation in transmission towers came at ~90%. The implied volume growth in engineering products was ~14%; for polymer products, it was in line with value growth (~25%).

Fig 7 – Segment-wise highlights

(YE: Mar)	Q4 FY16	Q4 FY17	% yoy	Q3 FY17	% qoq	FY16	FY17	% yoy
Segment revenue (₹ m)								
Engineering products	4,589	4,637	1.0	3,571	29.9	12,822	13,993	9.1
Polymer products	558	695	24.6	470	47.8	1,525	1,980	29.8
Infrastructure projects	81	315	290.7	265	18.7	277	813	193.9
Total	5,227	5,647	8.0	4,306	31.1	9,765	11,192	14.6
EBITDA margins (%)								
Engineering products	14.6	13.7	-	13.1	-	13.9	14	-
Polymer products	10.4	9.9	-	6.9	-	11.5	10.2	-
Infrastructure projects	6.8	14	-	13.4	-	17.1	13.8	-

Source: Company

- Management maintained its growth guidance for FY18 of ~15-20% in revenues and more than 50% in revenue from polymer products. It is comfortable with the present level of blended margins but, nevertheless, expects margins in polymer products to move up (on better capacity utilisation).
- Capex for the new units at Guwahati and for new products**
 - Fresh capacity for engineering products and polymer products will be added at Guwahati. Planned capex is ~₹600m.
 - ₹200m additional capex will be incurred on a transmission-tower testing station.
- Regarding international orders, the tower-supply contract with LATAM TSO expired in Sep'16. TSO has not renewed the contract as it has yet to take up the quantity earlier contracted for. Skipper has pending orders of ~₹4bn-4.5bn from TSO, likely to be executed by Q3 FY18.

Fig 8 – Cost structure

(₹ m)	FY15	FY16				FY17			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,999	2,367	3,499	3,718	5,297	2,844	4,013	4,306	5,837
Raw material cost	3,617	1,460	2,290	2,322	3,413	1,771	2,528	2,843	3,767
Employee cost	87	102	124	122	152	155	192	193	192
Other expense	608	451	657	779	998	511	752	700	966
% of sales									
Raw material cost	72.4	61.7	65.4	62.5	64.4	62.3	63.0	66.0	64.5
Employee cost	1.7	4.3	3.5	3.3	2.9	5.5	4.8	4.5	3.3
Other expense	12.2	19.1	18.8	21.0	18.8	18.0	18.8	16.3	16.5
EBITDA margin (%)	13.7	14.9	12.2	13.3	13.9	14.3	13.5	13.2	15.6

Source: Company

Valuation

The stock now trades at 15.8x FY18e and 12.9x FY19e earnings. With mounting power-transmission capex, healthy growth is likely in the order books of transmission companies, resulting in greater revenue assurance. With its location advantage, Skipper is also likely to see higher inflow growth. We expect margins to continue at present levels, and strong growth in earnings. We believe there will be re-rating in valuations because of the good growth prospects. Hence, we upgrade our recommendation to a Buy, with a revised target price of ₹271 (17x FY19e earnings).

Change in estimates

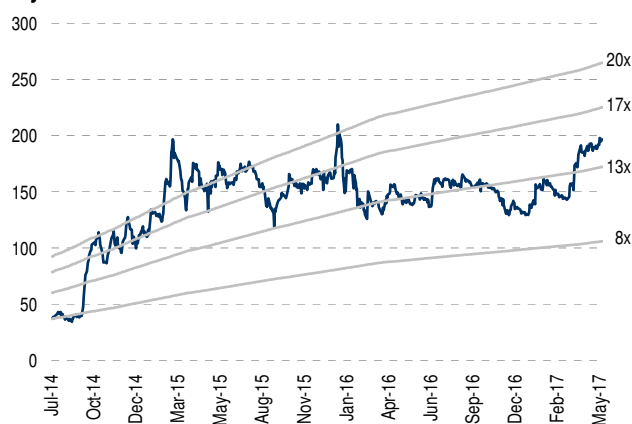
Margins will be slightly better than earlier expected due to the higher EBITDA/ton and realizations. Debt reduction would lead to lower interest costs. Hence, we see a 5% and 9% rise in earnings in respectively FY18 and FY19.

Fig 9 – Change in estimates

(₹ m)	Original Estimates		Revised Estimates		Change (%)	
	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
Revenue	20,718	23,560	20,254	23,775	-2.2	0.9
EBITDA	2,817	3,211	2,871	3,361	-2.9	0.3
EPS (₹)	12.3	14.6	12.9	15.9	4.8	9.3

Source:

Fig 10 – One-year-forward PER



Source: Company, Anand Rathi Research

Key risks

- Any significant delay in the awarding of orders.

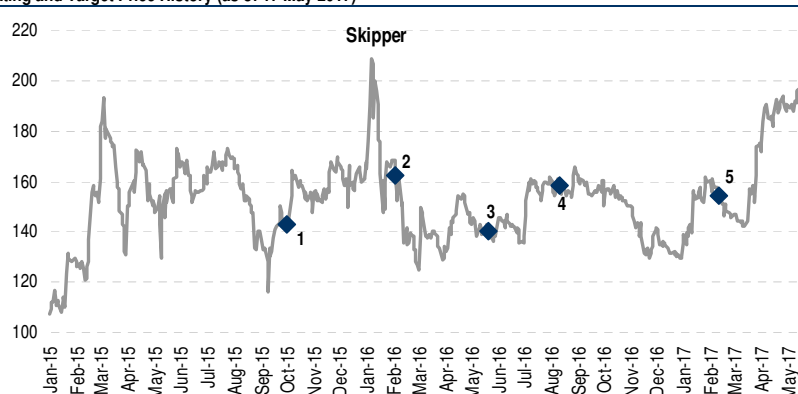
Appendix

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Rating and Target Price History (as of 17 May 2017)



	Date	Rating	TP (₹)	Share Price (₹)
1	29-Sep-15	Buy	204	145
2	02-Feb-16	Hold	182	170
3	18-May-16	Hold	183	142
4	09-Aug-16	Hold	182	158
5	09-Feb-17	Hold	189	155

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