



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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BUY

Current Price	266
Target Price	370
Upside/Downside	39%
52 Week Range	Rs 292/133

Key Share Data

Market Cap (Rs.bn)	27.2
Market Cap (US\$ mn)	425
No of o/s shares (mn)	102
Face Value	1
MonthlyAvg. vol(BSE+NSE) Nos'000	1.22
BSE Code	538562
NSE Code	SKIPPER
Bloomberg	SKIPPER IN

Price performance



% Shareholding	Sep-17	Jun-17
Promoters	70.35	70.41
Institutions	13.89	13.95
Others	15.76	15.76
Total	100.0	100.0

Key Financials (Rs Mns)

Year	Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY16	15,062.2	26.0	2,192.5	14.6	951.3	91.7	9.3	28.6	24.9	23.5
FY17	17,029.6	13.1	2,460.4	14.4	1,115.0	17.2	10.9	24.4	22.6	23.6
FY18E	20,162.7	18.4	2,768.4	13.7	1,329.0	19.2	13.0	20.5	22.0	23.2
FY19E	23,792.2	18.0	3,160.4	13.3	1,607.1	20.9	15.7	16.9	21.7	24.2
FY20E	28,212.3	18.6	3,807.5	13.5	2,047.5	27.4	20.0	13.3	22.3	25.8

A conducive policy environment has helped the transmission sector to grow significantly in the last few years. According to CRISIL, the power transmission sector in India is the most attractive to invest in currently, followed by roads and highways, and renewable energy. As per Central Electricity Authority's draft Electricity plan, about 1,05,580 ckt Kms will be added between 2017-2022

On an average, towers account for more than 35 per cent of the cost involved in the construction of a transmission line. Along with their foundations, the towers constitute almost half the cost of a transmission line. Therefore, market opportunities for technology providers and transmission tower players are likely to grow significantly in the coming years

Transmission Tower segment to grow at 15%:

Skipper, is one of the lowest cost producer of transmission towers. The tower manufacturing segment is 83% of revenue and we expect the transmission tower segment of the company to comfortably grow at >15%. Skipper will expand the capacity at regular intervals. Order book of this segment stands at RS26bn to be executed over 18-24 months. Current land bank at its uluberia plant would enable the company to expand its capacity on brown field basis to 330000tpa.

Polymer pipes: Next driver of growth

Skipper entered PVC pipe industry in FY12 with a capacity 10000tpa which is increased to 51000tpa. Current utilization for the division is at 60% leaving enough room to grow further. Management expects revenue for the segment to grow at a CAGR 40-45% over the medium term. Over the period the company increased its channel partners from 1500 to 3500 and is planning to increase to 5000. The company has adopted asset-light model wherein, the land is taken on lease and company invests for plant & machinery. This gives much better asset/turnover.

Monopoles: Next big opportunity

Monopoles acquires 70% lesser space as compared to traditional towers. Therefore, demand for monopoles is likely to increase manifold as land acquisition is challenging. Skipper has 15000tpa of monopoles capacity.

Valuation

In FY19E and FY20E we expect engineering segment to post growth of 15% while PVC segment to post growth of 40%. Margin for engineering segment is likely to remain stable at 13-14% while for PVC segment we expect improvement of 200bps to 11%. Therefore, company is likely to post topline CAGR of 18% and bottom line CAGR of 25% over FY17-20E. Overall capex during the period will be Rs60-65cr in each year which will be funded largely by internal accruals. Improved earnings to improve debt: equity ratio from 0.8x to 0.4x by FY20E. ROCE to improve from 23% to 26% over FY17-20E. Based on Sum-of-the-parts assigning 8x multiple to engineering products and 12x multiple to polymer products we get fair



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Investment Rationale

Engineering products to grow at 15%

Skipper has grown its engineering product's capacity from 100000t to 230000t over FY12-17. Production volume for the segment has increased at a CAGR of 25% over FY12-17 while overall T&D ordering activity over the same increased at a CAGR of 10%. Thus, Skipper has gained market share in the industry over last 10 years.

At its current Uluberia facility Skipper can increase capacity upto 300000MTPA. Brownfield capacity addition can be done at minimal capex of Rs10000/t. Skipper is likely to achieve 12-15% revenue CAGR at a nominal capex of Rs30-35cr over medium term. The company adopts strategy of expanding the capacity gradually by 15-20% once existing capacity reached 85-90% utilization. Current utilization of its plants is 85%.

Engineering Products	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Capacity	100000	130000	150000	175000	200000	253000	278300	306130
Growth	0%	30%	15%	17%	31%	10%	10%	10%
Utilization	72%	79%	91%	90%	87%	89%	92%	94%
Sales (Rs Mn)	9408.4	10688.4	12800.8	14132.5	15383.2	17730.6	20436.3	23554.9
EBIT	605.7	903.6	1809.1	1937.4	2082.6	2305.0	2758.9	3250.6
EBIT%	6%	8%	14%	14%	14%	13%	14%	14%

Strong competitive advantage ensures better margin

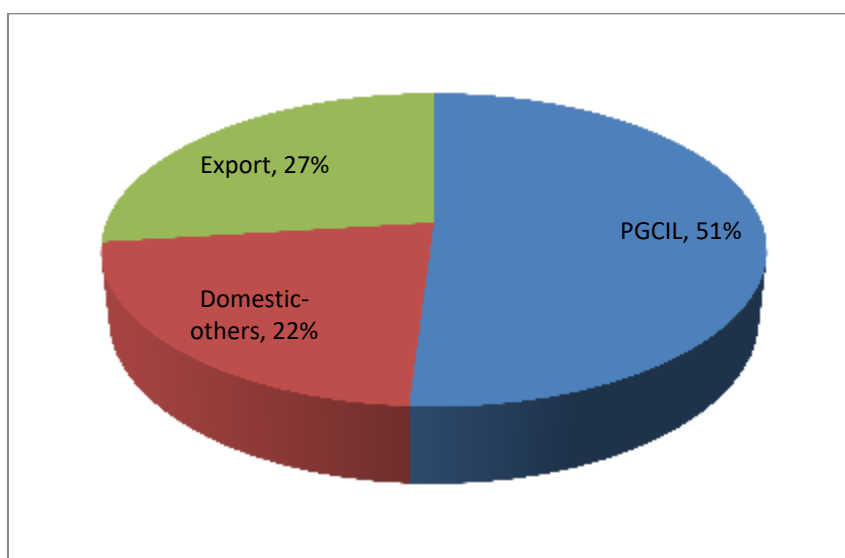
Skipper is one of the lowest cost manufacturers in the industry as its plants are situated near raw material source. Similarly, the integrated operations at its Kolkata plant enables Skipper to capture ~80% of the value addition - from billet rolling to manufacture of angles - that form the core of Transmission Tower manufacturing. Moreover, Skipper is the only domestic company having 8 galvanizing plants with capacities of over 230,000MTPA.

Healthy order book

Skipper has healthy order book of Rs26bn of engineering segment. PGCIL contributes 51% to its orderbook and SEBs and exports contribute 22% and 27% respectively. The company expects PGCIL order inflow to be maintained at similar level and order flows to improve from SEBs like Rajasthan, UP, Uttarkhand, MP, Telangana etc. Over the period exports are likely to grow at a faster rate. The company has strong order bid pipeline of Rs14bn. During Q2FY18 the company secured new orders worth in excess of Rs. 430 crores for engineering products from Power Grid Corporation of India, Uttar Pradesh Power Transmission Corporation Limited, Sterlite Power, Reliance Jio, and for various supplies across Asia and Africa. Export order book contributes 20%.

While order flows from PGCIL (~Rs200bn p.a.) are expected to remain flat for the next 4-5 years, incremental order flows are expected from SEBs (~Rs200-250bn p.a.) and TBCB projects. SEBs action is likely to remain healthy with states like Karnataka, Tamil Nadu, West Bengal, Andhra Pradesh and Telangana increasing on their T&D spending to reduce AT&C losses and building infrastructure on higher-voltage lines. Contribution from exports is also expected to improve during FY18-20E.

Order Book Break-up



Source: Company, D&B Research

Exports continue to grow

Exports now constitute ~8-10% of Engineering Products revenue. Going forward, exports revenues are expected to be the another major mainstay of Skipper's T&D revenue and the company's endeavour would be to maintain exports to ~25-30% of Engineering Products revenues. With its footprint spread across 30 countries in South America, Europe, Africa, Middle East, Asia and Australia, we expect strong accretion to its international orders, which could help cushion the impact of any slowdown in the domestic market.

Lower working capital days- an inherent advantage over EPC players

For projects that PGCIL is awarded through nomination from the Ministry of Power (MoP), PGCIL usually announces EPC contracts wherein the EPC player is responsible for constructing and commissioning the entire transmission corridor length. Skipper bids for these projects in a joint venture (JV) with EPC players wherein the EPC work is carried out by the JV EPC partner and Skipper is only responsible for supplying the transmission towers. For these projects, Skipper raises the invoice for the towers supplied as soon as deliveries are made to the project site. The invoices are processed by PGCIL and the corresponding payments are made to Skipper. The ability to raise invoices based on the deliveries made enables Skipper to have a working capital cycle of ~77 days and not fall prey to the entire ~180-day working capital cycle of the EPC player.

Monopoles- Next big opportunity

Monopoles have inherent advantages as it occupies only 25-30% of the space needed by conventional lattice towers. Many T&D line projects have run into RoW issues on account of environmental / forest clearances, besides increasing resistance from farmers and land owners. Similarly, utilities are facing challenges in laying transmission lines in urban areas on account of non-availability of adequate land for installation of lattice towers.

Monopoles are now becoming a popular choice for installing T&D structures and telecom towers, as they not only reduce the space requirement but also easily comply with the local aesthetic and zoning requirements. Across USA and Europe, almost 100% of the incremental T&D and telecom structural installations in urban areas are on monopoles, while in non-urban areas, Dalal and Broacha Research is available on Bloomberg DBVS <GO>



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~30% of the new installations are on monopoles. Though the use of monopoles has become widespread in USA, Europe, China etc, the market for monopoles has not taken off in India due to the high cost involved and lack of awareness. Monopoles cost 1.7x of traditional towers. However, few utilities like PGCIL and select SEBs have commenced installing monopoles.

Skipper's monopole capacities stand at ~15,000MTPA, which can be augmented to ~40,000MTPA. In value terms, monopoles constitute less than 5% of Skipper's revenue in the Engineering Products segment. The existing domestic market for monopoles is worth ~Rs1bn (T&D ~Rs500mn and the balance Rs500mn spread across telecom, luminaries etc.), and going forward, the demand for monopoles is likely to expand at a faster pace, given the increasing urbanization and scarcity of land.

Shift towards tariff based competitive bidding (TBCB) to open more opportunities for private sector also

The National Tariff Policy of 2006 has made TBCB mandatory for all projects after January 2011. Although the number of projects that are being bid for through competitive bidding has increased, PGCIL continues to get the major chunk of transmission projects from the Ministry of Power on a nomination basis. However, the TBCB route has opened up the sector for private players with the private sector players now having a 5% market share in transmission compared with 1% in FY12. Private players have witnessed traction in order inflows in the recent past with players such as Adani and Sterlite bagging numerous BOOT projects in FY15 and FY16 through the TBCB route. Most of these private BOOT players do not have their own transmission tower manufacturing capacities; and this can provide incremental opportunity to players such as Skipper to bag tower supply orders.

Skipper has in the past successfully bagged and executed projects from BOOT players such as Isolux Corsan - Skipper had supplied transmission towers for Isolux's 765 kV Mainpuri transmission project in Uttar Pradesh. In FY16 alone, orders worth INR 8,852 crore have already been awarded through TBCB and Skipper's management has indicated that they are keen to sign up MoUs with these BOOT players to supply transmission towers for these BOOT projects. Going forward, the government is looking to award a higher quantum of projects through the TBCB route and this should provide a huge opportunity for Skipper to win incremental tower supply orders.

Assam plant enjoys tax holiday

The Assam facility (Transmission Towers and PVC/CPVC fittings) has fiscal benefits – income tax exemption for 10 years and GST exemption for 15 years. Skipper has 30000t transmission tower capacity in Assam and 7000t PVC fittings capacity. The plant has revenue potential of Rs300cr which would lead to tax saving of Rs10cr.

Polymer products contribution to increase

Skipper has expanded its polymer products capacity from 10000tpa to 51000tpa over FY12-17. Sales for the division have increased at a CAGR of 45% over the period. Polymer products contributed 13% of the company's total revenue. Current utilization for the segment is at 50-55%. Management increased its distribution reach from 1500 channel partners to 3500. Therefore, major focus for the medium term is to improve utilization for the division. The growth for the division is likely to be 35-40% CAGR over the medium term.

In addition to spending on marketing & brand building, the company is also engaging directly with architects, plumbers and farmers to indoctrinate them with Skipper's Polymer Pipes portfolio. Bulk of the existing revenue in the Polymer Products segment is attributable to low margin Agricultural Pipes (~75%) while the balance is derived from Plumbing & Sewage. Skipper's focus is to increase revenue from plumbing & sewage to 50% over medium term. Also, the share of value-added products (VAP),



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like Fittings and CPVC products is also expected to more than double over the next 2-3 years. This will improve margin for the segment as plumbing pipes and agriculture pipes earn better margin.

Skipper's next phase of revenue and profitability growth is intricately linked to the performance of the Polymer Products segment. The company is also planning to double the Polymer Pipe capacity to 100,000MTPA over the next 4-5 years. It is pertinent to note that the Polymer Products segment has grown at a phenomenal pace during the last 7 years and has almost doubled its turnover every two years from FY11 onwards. The company has incorporated asset-light model wherein land and shed are being leased out and Skipper is implementing capex for manufacturing line. This has reduced per tonne capex to Rs8000-10000/t as against Rs20000/t for Greenfield unit to manufacture PVC pipes. As Skipper has set up entire infrastructure incremental expansion of PVC pipes would require capex of Rs8000/t. Asset/turnover ratio for the division is 10x due to its asset light model.

At present, Skipper is the largest manufacturer of PVC pipes in West Bengal and has one of the largest Polymer Pipe manufacturing facilities in Eastern India acquired 10% market share in that region.

Polymer Products	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Capacity	10000	10000	12500	35000	51000	51000	63000	63001
Growth	0%	0%	25%	228%	24%	0%	24%	0%
Sales (Rs Mn)	555.7	687.7	984.7	1658.1	2159.2	2591.0	3627.4	5078.3
EBIT	51.9	59.6	102.8	165.1	165.5	233.2	362.7	558.6
EBIT%	9%	9%	10%	10%	8%	9%	10%	11%

Tie up with global giants to help expand product range

The CPVC pipes offer higher realisations and Skipper has tied up with Sekisui Chemical Co of Japan for the CPVC resin. We note Skipper is only the fifth Indian company to have a tie up for the CPVC resin. Riding on the CPVC pipes Skipper will be able to cater to the agricultural and urban plumbing segments. To get a foothold in the higher margin plumbing systems, Skipper has entered into a JV with Wavin, Netherlands.

To focus on taking share from unorganized players

The unorganised players have been losing market share to the organised sector. Market share for the unorganised players stood at 35% in FY15 compared to 50% in FY13. Skipper's management believes that they will be able to increase PVC sales not only due to the ever increasing market size, which is expected to reach INR 27,000 crore by FY18E, but also by cannibalizing share from the unorganised players. Retail sales comprise 90% of sales for the PVC segment and that has insulated Skipper from any cyclical impact.

Infrastructure projects

Skipper possesses a dedicated vertical for EPC line construction, with a specialized skill set to execute turnkey transmission projects upto 800 kV HVDC for various utilities. Under this division Skipper offers integrated solutions across tower design, tower testing, manufacturing, and onsite construction. It has built a dedicated team for EPC line construction. This segment contributes 5% to topline. The segment is likely to grow at a CAGR of 10-15%.



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Foray into new businesses

Bagged order for railway electrification

The Company as an ongoing endeavor to enrich its product mix has forayed into Railway electrification. The Company is gearing up to sharpen its focus on Railway electrification and intends to increasingly start bidding for such projects in strategic alliance with local private players initially. We are gearing up for adding more manpower and building capacities to handle all future Railway-related projects. The Company has already started bidding for such projects and is favorably placed to bag its first package valuing Rs16cr.

Foray into drip irrigation through JV with MetzerPlas

Skipper has formed JV with MetzerPlas, which is one of the largest and most specialized manufacturers of drip irrigation solution from Israel, to make drip Irrigation systems in India. MetzerPlas is a longstanding global player dedicated to developing and manufacturing high-quality products for customers worldwide. MetzerPlas brings advance water management technology to the world of agriculture and is an innovative leader in design and production of irrigation systems worldwide. The Company's drip integration products help the global food challenge by assisting growers to continue delivering produce in spite of increasing constraints, such as limited water supply, high land values, harsh topography, and rising global competition and commoditization. With its wide selection of drip emitters, cylindrical, flat, pressure compensated, anti-siphon, and non-drain Metzer irrigation solutions offer high performance and reliability and are suitable for every crop and budget. Metzer also provides its agronomic implementation expertise to help achieve successful long-term operation and increase the gross profit.

The drip business holds immense potential in India and is one of the focus sectors of the government. The current domestic industry size is estimated at close to 5,000 crores. And under the Honorable Prime Minister's flagship scheme, Pradhan Mantri Krishi Sinchai Yojana, which has been launched with the aim of extending irrigation cover, Har Khet Ko Pani, and improving water use efficiency, Per Drop More Crop, in a focused manner and concentrating on source creation, distribution, management, field application, and extension activities in the area of water management, we expect this sector to grow at a robust pace and for the JV to become a major player in the domestic market.

Foray into solar structures

Skipper has also entered into solar mounting structures where addressable market size is \$3bn over next 5-7 years. India is setting up substantial renewable generation capacities. India has set a target to achieve an overall installed capacity of renewable energy for 41,400 MW by 2017, and 72,400 MW by 2022.

Industry Dynamics

Investment to continue in power T&D

India has invested substantially in the power generation with the total installed capacity standing at 282 GW against a peak demand of 149 GW. In spite of such superior installed power generation capacity, the peak power demand needs are not being met across different regions of the country. A chief reason for this is the high technical losses faced during power transmission. The minimal capex that has been spent for transmission and distribution (T&D) is the reason for the high technical losses. The desired investment ratio between power generation and T&D should be 1:1. However, in India this ratio is at a low 1:0.5, which has led to aggregate power transmission losses of 23% of the total power generated in the country. The government aims to plug this gap by investing substantially in the T&D space going forward. The government is considering an aggregate capex of



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around USD 50 billion (INR 3,25,000 crore) over the next five years to improve the old inefficient T&D infrastructure and also for greenfield projects such as the green corridor, which is being set up to transmit renewable energy. Of this capex, Rs1.4 tn is allocated towards transmission and ` 1.2 tn in transformation. Over 60% of the total spend is likely to come from states with ` 1 tn of spending in inter regional grid capacity, ` 1.3 tn in intra-regional grid capacity and ` 300 bn in distribution (sub 220KV) systems. The total requirement for the 13th Five Year Plan (2017-2022) is 62,800 circuit kilometres (ckm) of transmission lines. In terms of Inter regional grid capacity, India is expected to add another 46GW during the five-year period from 2017-22.

The capex on the transmission side will be led by Power Grid for inter-state transmission and by the respective STUs for intra-state transmission. While Power Grid, with its strong execution track record will continue to get transmission projects from the government on a nomination basis, a lot of projects will also be bid on the tariff-based competitive bidding (TBCB) model thereby creating huge opportunities for private players such as Adani, Sterlite etc.

The 20 Year transmission plan to provide the blue print for transmission capex in India

Expected transmission system addition during 2017-22

	As of March 2017	Addition during 2017-18 (till September 2017)	Planned addition during 2017-22	Balance capacity to be added by 2022
Transmission line length (ckt. km)				
HVDC (800/500 kV)	15,556	-	4,280	4,280
765 kV	31,240	2,046	27,300	25,254
400 kV	157,787	8,678	46,000	37,322
220 kV	163,268	1,827	28,000	26,173
Total	367,851	12,551	105,580	93,029
HVDC capacity (MW)				
+/- 800kV	6,000	3,000	14,000	11,000
+/- 500kV	13,500	-	-	-
Total	19,500		14,000	11,000
Substation capacity (MVA)				
765 kV	167,500	10,000	114,000	104,000
400 kV	240,807	20,445	103,000	82,555
220 kV	312,958	8,620	75,000	66,380
Total	721,265	39,065	292,000	252,935

Source: Central Electricity Authority

PVC and CPVC pipes industry

PVC and CPVC pipes market structure in India

Plastic piping Industry in India has a market size of INR ~21,500 crore and the metal industry is about INR 6,000 crore. PVC pipes industry is projected to reach Rs 240 bn by operating through a unique cash-n-carry model with a strong focus on the agriculture-pipe market. The PVC and CPVC pipes are not only cheaper than the conventional GI pipes but also have more longevity and for the same reason the replacement of metal by plastic has been taking place rapidly, The plastics industry is expected to grow at an accelerated pace in the coming years. The plastic piping industry has also witnessed strong demand growth due to the increasing construction activity in the country especially in the tier I and tier II cities and also due to rising demand for branded agricultural piping systems.

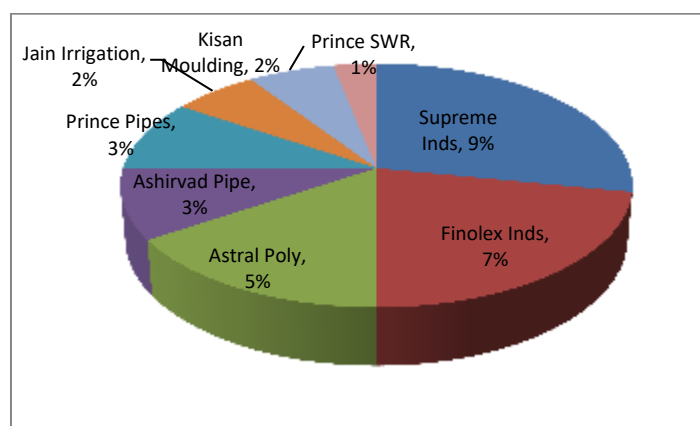


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The unorganized portion of the PVC business is almost 40%. So we expect there to be a lot of migration from unorganized to organized in this sector. The organized players who are again operating nationally should get an advantage over the regional unorganized players. And our sense is that now that the initial effects of GST are gone, again organized players who are the major players like Supreme, Finolex, Astral, Aashirvaad, etc., and other organized players like us will definitely get a larger play field, both in terms of the organic growth in the market as well as the shift from unorganized to organized. So it's only going to benefit the organized players in the long run.

Major players and market share



Source: Industry, D&B Research

Demand Drivers

Low per capita consumption of PVC pipes: The demand for PVC pipes is largely dependent on the user industries, mainly agricultural and plumbing pipe systems. India's per capita PVC pipes consumption remains the lowest in the world at 1.74 kg, as compared to 9.75 kg in China and 11.47 kg in the US. **The expected growth in the user industries, coupled with low per capita consumption, leaves ample scope for growth of the PVC pipe industry, going forward.**

Replacement demand continues: Replacement of conventional piping systems like galvanized iron (GI) and cast iron (CI) piping systems with plastic is another strong growth driver of the PVC plumbing segment. UPVC, ASTM and SWR pipes in the plumbing segment are fast replacing conventionally used GI and CI pipes, respectively. While the Western and Southern regions of India have witnessed a large part of the replacement demand being met, there is still strong replacement potential in North and East India, which could result in huge growth opportunities for PVC plumbing pipe manufacturers, going forward.

New housing construction demand: The strong growth in the plumbing pipes segment is partly attributed to buoyant construction activities in Tier II and III cities over the last five years. The growth opportunities continue to remain upbeat, considering the housing shortage and the thrust by the government of India in this sector. Presently, the total housing shortage in urban areas stands at ~60 mn units. One urban unit consumes ~100-150kg of PVC pipes. **In order for the government's "housing for all by 2022" vision to succeed, the country needs to develop about 111 mn housing units, which could result in an incremental demand of PVC pipes.**



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Agricultural pipes segment shifted from unbranded to branded pipes: The agricultural pipes segment (size Rs 105bn), which is largely unorganised, accounts for over 50% of the industry's size. Over the past five years, there has been a gradual shift in demand towards branded pipes. As a result, branded players have outperformed the unbranded players in terms of growth.

Only 37% agricultural land under irrigation provides huge growth opportunities for rigid PVC pipes: India's crop irrigation area is estimated at ~160 million hectares. Presently, 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 tables across the country are depleted. Consequently, the demand for rigid PVC pipes is expected to increase.

Benefit from government's thrust on water infrastructure development: The government of India is committed towards making higher investments in water infrastructure projects. The Indian pipe industry is expected to continue witnessing a healthy demand. With a size of over \$4 bn, the Indian water and wastewater market is expected to grow at the rate of 10–12% annually.

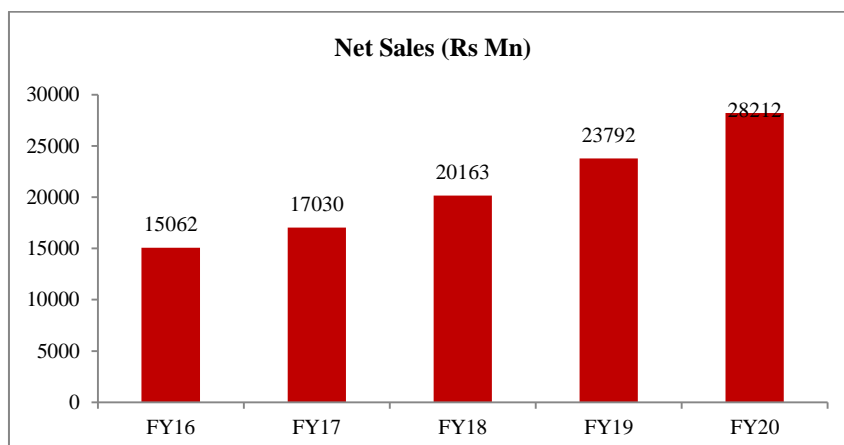
Company Background

Skipper operates through 3 segments - Engineering Products, Infrastructure Projects and Polymer Products. The Engineering Products segment includes towers, angles, high mast poles, swaged poles and scaffoldings. The company has 4 manufacturing plants for T&D structures in Eastern India – 2 at Jangalpur (West Bengal), 1 at Uluberia (West Bengal) and 1 at Guwahati (Assam) with installed capacities aggregating to 230,000MTPA. The Infrastructure Projects segment includes horizontal direct drilling services, and engineering, procurement & construction services. The Polymer Products segment includes PVC, CPVC, UPVC, soil, waste & rain (SWR) pipes & fittings, and other related products. The company has 5 manufacturing facilities for polymer Products spread across 5 regions of India – West Bengal, UP, Gujarat, Telangana and Assam with aggregate capacities of 51,000MTPA, and is planning to double the same to 100,000MTPA in the next 4-5 years.

Financial Performance

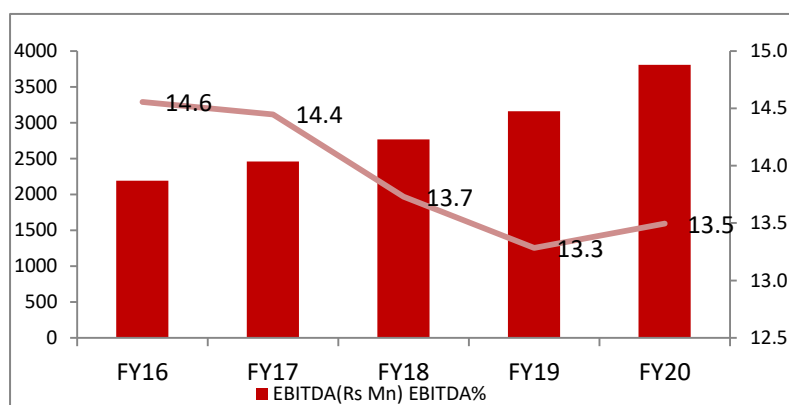
Topline to grow at 18%

Driven by 15% increase in engineering products and 40% CAGR in PVC pipe division, Skipper's topline is likely to grow at a CAGR of 18% over FY17-19E. Contribution from engineering products is likely to go down from 84% to 79% and the same for PVC division is likely to increase from 12% to 17% over the same period.



EBITDA margin to go down by 50bps

Engineering products command margin of 14% while PVC pipes have reported margin of 10%. With increasing utilization of capacity margin for the division is likely to improve. EBIDA margin is likely to remain around 13-14%.



Q2FY18- Lackluster due to GST Implementation

During Q2FY18 overall revenue increased by 29% yoy.

Revenues in the engineering product segment increased by 34% yoy to Rs4.6bn – aided by strong commodity prices. While revenue from polymer segment declined by 2% yoy decline to Rs428mn as GST related disruptions impacted offtake from distributors and dealers.

EBITDA% in the engineering segment declined by 89bps to 13%. For polymer segment margin declined by 235bps to 7%. The company is witnessing demand pick-up post GST which will improve volume pick up in subsequent quarters.

Order inflows worth Rs4.3bn was accrued from PGCIL, SEB's and private sector players. Order back log stands strong at ~Rs26bn.

Valuation

Post Q2FY18 result management has revised its revenue guidance from 15% to 20% for engineering segment driven by better order inflows. While for PVC segment reduced guidance from 45% to 25% due to lackluster sales post GST implementation. Engineering product segment is likely to grow at a CAGR of 15% and margin is likely to be maintained at 13-14%. Polymer product segment's topline to increase at a CAGR of 40-45% on the back of improving utilization. Engineering product segment is high ROCE segment with ROCE of 22%. Incremental capex requirement to maintain 15% CAGR topline growth is around Rs350-400cr. Therefore, we expect ROCE for the segment to improve by 100bps by FY20E.

Polymer product segment earns low ROCE of 8% currently due to underutilization of capacity. As segment is likely to grow at a CAGR of 40% ROCE is likely to improve to 17% by FY20E.

Based on Sum-of-the-parts assigning 8x multiple to engineering products and 12x multiple to polymer products we get fair value of Rs340 per share.


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Particulars	EBITDA	Multiple (x)	Rs Mn
Engineering Products	3583.1	9	32248.1
Polymer Products	613.1	12	7357.7
Infrastructure	158.0	8	1264.1
Total			40869.9
Debt			3780.3
Cash			606.1
MCAP			37695.8
No of shares			102
Fair Value			370
Upside Potentials			39%

PEER COMPARISON

Name of the Company	CMP	NO. of Shares	M.Cap (Rs Mns)	EPS		P/E		EBIDTA		EV/EBIDTA	
				FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Skipper	266	102.3	27096	13.0	15.7	20.5	16.9	2768.4	3160.4	11.2	9.8
KEC International	384	257.1	98696	15.2	19.0	25.1	20.1	9511.0	11269.0	12.8	10.8
Kalpataru Power	476	153.5	73017	16.1	20.9	29.6	22.8	10292.0	11555.0	7.6	6.8
Techno electric	400	112.7	45050	19.7	22.9	20.3	17.5	3331.0	3742.0	12.8	11.4
Finolex Industries	653	124.1	80978	24.4	29.7	29.0	22.0	4658.0	5601.0	17.5	14.5
Supreme Industries	1302	127.0	165351	33.3	41.8	39.1	31.2	7682.0	8302.0	22.0	18.2
Astral PolyTechnik	835	119.8	100017	15.2	20.4	54.7	40.7	3239.0	4088.0	31.1	24.6

Source: Bloomberg Estimates



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P&L (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	15,062.2	17,029.6	20,162.7	23,792.2	28,212.3	Net Profit	951.3	1,115.0	1,329.0	1,607.1	2,047.5
Raw Materials	(9,484.9)	(10,908.0)	(12,814.0)	(15,583.9)	(18,479.0)	Add: Dep. & Amort.	241.2	315.5	355.5	405.3	460.1
Employee Cost	(499.6)	(731.5)	(951.0)	(1,074.6)	(1,214.3)	Cash profits	1,192.5	1,430.4	1,684.5	2,012.4	2,507.6
Other Expenses	(2,885.2)	(2,929.7)	(3,629.3)	(3,973.3)	(4,711.5)	(Inc)/Dec in					
Operating Profit	2,192.5	2,460.4	2,768.4	3,160.4	3,807.5	-Sundry debtors	34.1	(6.0)	(686.2)	(794.9)	(968.0)
Depreciation	(241.2)	(315.5)	(355.5)	(405.3)	(460.1)	-Inventories	(217.5)	(1,181.9)	(677.4)	(784.7)	(955.6)
PBIT (Excl O. Income)	1,951.3	2,144.9	2,412.9	2,755.1	3,347.3	-Loans/advances	(440.8)	66.3	(93.8)	(104.3)	(116.0)
Other income	51.7	31.3	18.4	18.4	18.4	-Current Liab and					
Interest	(570.0)	(611.0)	(565.6)	(517.4)	(491.4)	Provisions	(634.4)	548.9	636.7	798.0	883.3
PBT	1,433.0	1,565.2	1,865.7	2,256.0	2,874.2	Change in working					
Exceptionals	-	-	-	-	-	capital	(1,258.5)	(572.6)	(820.6)	(885.9)	(1,156.3)
Profit before tax (post						CF from Oper.					
exceptional)	1,433.0	1,565.2	1,865.7	2,256.0	2,874.2	activities	(66.1)	857.8	863.9	1,126.4	1,351.3
Provision for tax	481.7	450.2	536.7	648.9	826.8	Capex					
Reported PAT	951.3	1,115.0	1,329.0	1,607.1	2,047.5	CF from Inv. activities	(945.7)	(849.8)	(619.5)	(650.0)	(600.0)
MI	-	-	-	-	-	CF from Fin. activities	948.8	(256.8)	(42.2)	(616.0)	(470.1)
Net Profit	951.3	1,115.0	1,329.0	1,607.1	2,047.5	Cash					
Adjusted Profit (excl						generated/(utilised)	(63.0)	(248.8)	202.2	(139.5)	281.2
Exceptionals)	951.3	1,115.0	1,329.0	1,607.1	2,047.5	Cash at start of the					
						year	574.1	511.1	262.3	464.5	325.0
						Cash at end of the year	511.1	262.3	464.5	325.0	606.1

Balance Sheet	FY16	FY17	FY18E	FY19E	FY20E	Ratios	FY16	FY17	FY18E	FY19E	FY20E
Equity capital	102.3	102.3	102.3	102.3	102.3	OPM	14.6	14.4	13.7	13.3	13.5
Reserves	3,712.9	4,840.7	5,935.5	7,297.0	9,074.4	NPM	6.3	6.5	6.6	6.7	7.3
Net worth	3,815.2	4,943.0	6,037.8	7,399.3	9,176.7	Tax rate	33.6	28.8	28.8	28.8	28.8
MI	-	-	-	-	-	Growth Ratios (%)					
Non Current Liabilities	2,311.5	2,171.1	2,173.3	1,675.7	1,578.4	Net Sales	15	13.1	18.4	18.0	18.6
Current Liabilities	5,775.9	6,195.5	7,022.1	7,947.2	8,727.9	Operating Profit	1.9	12.2	12.5	14.2	20.5
CAPITAL EMPLOYED	11,902.6	13,309.7	15,233.2	17,022.3	19,483.0	PBIT	1.0	9.9	12.5	14.2	21.5
Non Current Assets	4,260.5	4,923.0	5,209.6	5,480.2	5,649.8	PAT	6.7	17.2	19.2	20.9	27.4
Fixed Assets	4,238.7	4,773.1	5,037.1	5,281.8	5,421.7	Per Share (Rs.)					
Goodwill	-	-	-	-	-	Net Earnings (EPS)	9.3	10.9	13.0	15.7	20.0
Non Current Investments	-	-	-	-	-	Cash Earnings (CPS)	11.7	14.0	16.5	19.7	24.5
Deferred Tax Asset	-	-	-	-	-	Dividend	1.4	1.6	1.8	2.0	2.2
Long Term Loans and						Book Value	37.3	48.3	59.0	72.3	89.7
Advances	21.8	150.0	172.5	198.4	228.1	Free Cash Flow	(9.9)	0.1	2.4	4.7	7.3
Current Assets	7,642.1	8,386.6	10,023.6	11,542.1	13,833.2	Valuation Ratios					
Current investments	-	-	-	-	-	P/E(x)	28.6	24.4	20.5	16.9	13.3
Inventories	2,499.9	3,681.8	4,359.2	5,143.9	6,099.5	P/B(x)	7.1	5.5	4.5	3.7	3.0
Trade Receivables	3,723.7	3,729.7	4,415.8	5,210.7	6,178.8	EV/EBIDTA(x)	14.2	12.6	11.2	9.8	8.0
Cash and Bank Balance	511.1	262.3	464.5	325.0	606.1	Div. Yield(%)	0.5	0.6	0.7	0.8	0.8
Short Term Loans and						FCF Yield(%)	(3.7)	0.0	0.9	1.8	2.8
Advances	907.4	712.9	784.1	862.6	948.8	Return Ratios (%)					
Other Current Assets	-	-	-	-	-	ROE	24.9%	22.6%	22.0%	21.7%	22.3%
CAPITAL DEPLOYED	11,902.6	13,309.7	15,233.2	17,022.3	19,483.0	ROCE	23.5%	23.6%	23.2%	24.2%	25.8%



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