When it's about money..

IIFL

India Private Clients

Skipper Ltd

Towering Ahead

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Skipper Ltd.

Towering ahead

Initiating Coverage

BUY

Sector: Capital Goods
Sector View: Positive

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Stock Data

Sensex:	24,901
52 Week h/l (Rs):	220 / 116
Market cap (Rscr) :	1,333
6m Avg t/o (Rscr):	4
Bloomberg code:	SKIPPER IB
BSE code:	538562
NSE code:	SKIPPER
FV (Re):	1
Div yield (%):	1

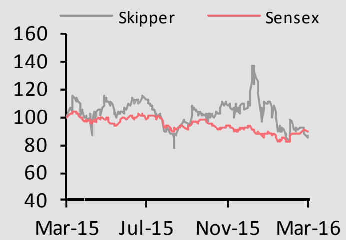
Prices as on Mar 29, 2016

Company Rating Grid

Shareholding Pattern

	Jun-15	Sep-15	Dec-15
Promoters	72.4	72.4	72.4
FII+DII	0	0	1.1
Others	27.6	27.6	26.5

Share Price Trend



March 30, 2016

Company Report

CMP: Rs130 1-yr Target: Rs200 Upside: 53.5%

Skipper Ltd is one of the leading manufacturers and suppliers of telecom and transmission towers in India. Skipper's earnings almost tripled over the past three years following restructuring of its engineering division and focus on domestic transmission and distribution (T&D). Its order book doubled over the past two years to Rs. 2,240cr, driven by its agreement with Latin America's biggest Transmission Service Operator (TSO) and increased ordering from Power Grid. We believe Skipper would be a major beneficiary of robust capex in the domestic T&D space. Its margins are better than those of peers due to its strategic location and backward integration capabilities. The PVC segment's revenue is likely to surge 3.5x over FY15-18, driven by ramp-up of new capacities in PVC products. Considering strong execution and higher share of exports coupled with lower input costs, we estimate 50% earnings CAGR over FY15-18E. We value the company at 13x FY18E P/E and recommend BUY with TP of Rs. 200.

Robust T&D capex to boost engineering business revenue

Strategic alliance with TSO provides the company with a huge opportunity in the export market (49% of FY15 order book). Given the strong order book, we see healthy revenue visibility over the next two years. Buoyed by a strong order book and robust capex in domestic T&D, we estimate 17.3% revenue CAGR over FY15-18. Skipper would report 30bps expansion in margins over FY15-18E on the back of increase in share of exports, higher share of 400KV+ towers, and lower input prices.

PVC segment contribution to surge

Skipper is a leading player in plastic pipes in West Bengal. It uses an asset light model and plans to raise capacity from 12,500tpa to 41,00tpa over FY14-17 to emerge as a pan-India player. Skipper has signed a technological tie-up with global giants such as Sekisui of Japan for CPVC compound and Wavin of the Netherlands for advanced plumbing solutions. We expect this segment to grow ~3.5x over FY15-18 to Rs. 324cr led by ramp-up in new capacities.

Financial Highlights

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	1,270	1,535	1,930	2,280
yoy growth (%)	22.0	20.8	25.8	18.1
Operating profit	173	208	269	318
OPM (%)	13.6	13.5	13.9	14.0
Pre-exceptional PAT	47	85	125	157
Reported PAT	89	101	125	157
yoy growth (%)	231.0	13.7	23.2	25.9
EPS (Rs)	4.6	8.3	12.2	15.4
P/E (x)	28.5	15.6	10.7	8.5
EV/EBITDA (x)	9.6	8.1	6.3	5.2
Debt/Equity (x)	1.3	1.0	0.8	0.6
RoE (%)	17.4	24.8	28.8	28.7
RoCE (%)	21.7	24.6	28.3	30.0

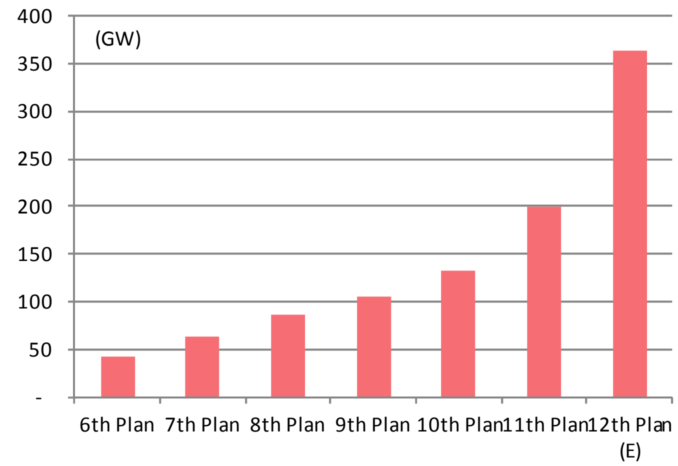
Source: Company, India Infoline Research

Transmission opportunities galore

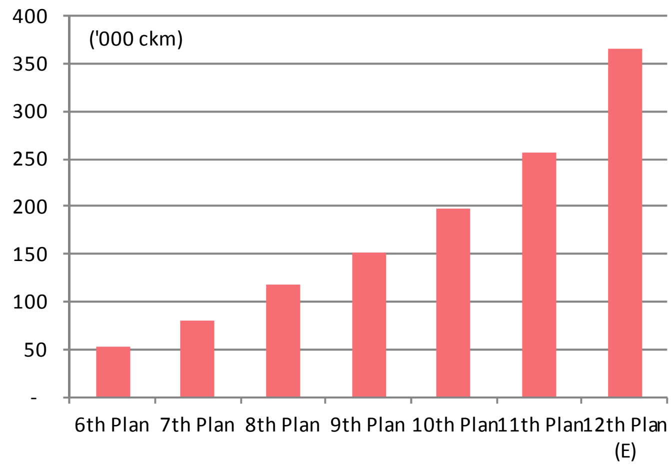
The ratio between investments in power generation capacity addition and the T&D segment has remained at 1:0.5x as against an 1:1 (an ideal scenario)

Investments in power T&D have lagged those in the power generation sector over the past decade as the country faced a high power deficit. Majority of power sector investments were concentrated towards augmentation of power generation capacity, which led to congestion in the T&D space. The ratio between investments in power generation capacity addition and the T&D segment has remained at 1:0.5x as against an 1:1 (an ideal scenario). India's power generation capacity more than doubled during FY08-FY15. Nonetheless, the transmission capacity grew by just 69% in terms of ckm and 76% in terms of MVA during this period, implying the need for more capex. Lack of transmission capacity led to jump in merchant tariffs in South India and low PLFs at power plants due to unavailability of transmission lines and grid failures. The government has realized that the problem of power shortage in the country also stems from transmission capacity constraints. The northeast, west, and east have surplus power during the peak season. However, the Northern and Southern regions continue to face power shortage. The inter-regional power transfer capacity to the Southern region has been enhanced by 71% (2,450MW) in the past 18 months and is at 5,900MW. Consequently, the southern region now has access to power from resource-rich areas. Power prices dropped from Rs. 6-7/unit to Rs. 3-4/unit, owing to improved connectivity.

Generation capacity has grown 117% from the end of 10th Plan



… and transmission network has increased by 69% over the same period



Source: Company, India Infoline Research

Regional surplus/deficit

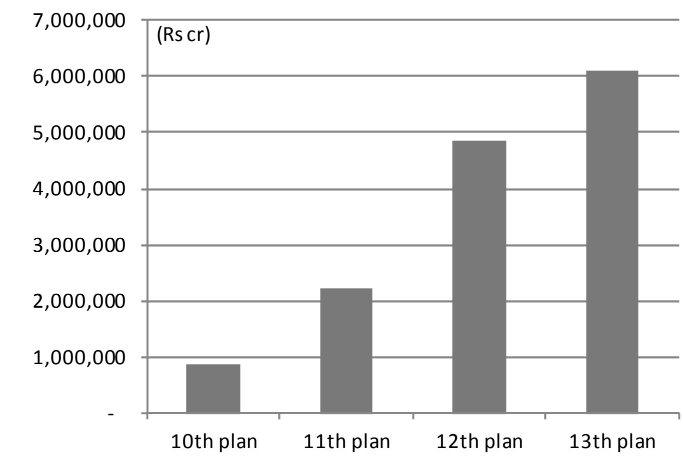
	Summer Peak			Monsoon Peak			Winter Peak		
Region	Availability	Demand	Sur(+) / Def (-)	Availability	Demand	Sur(+) / Def (-)	Availability	Demand	Sur(+) / Def (-)
NR	68,532	86,461	(17,929)	71,178	83,003	(11,825)	61,883	82,138	(20,255)
WR	102,803	81,751	21,052	99,657	77,449	22,208	99,356	86,054	13,302
SR	69,429	80,555	(11,126)	68,113	73,979	(5,866)	63,658	82,199	(18,541)
ER	61,060	35,928	25,132	62,692	34,132	28,560	59,304	34,135	25,169
NER	9,746	4,056	5,690	11,296	3,853	7,443	7,409	3,853	3,556
All India	**311,570**	**288,751**	**22,819**	**312,936**	**272,416**	**40,520**	**291,610**	**288,379**	**3,231**

Source: Company, India Infoline Research

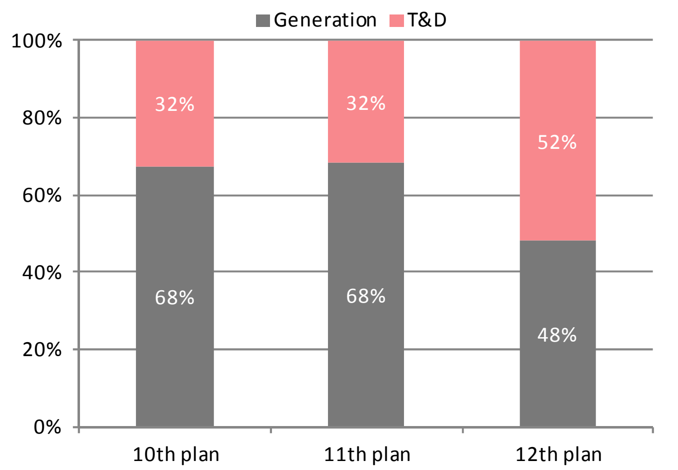
Planned investments in the T&D sector during the 12th Plan are at Rs. 4.86tn, which is 1.1x the power generation capex of Rs. 4.5tn

The 12th Plan expenditure has increased the share of T&D capex in the overall power capex, thus easing transmission constraints. Planned investments in the T&D sector during the 12th Plan are at Rs. 4.86tn, which is 1.1x the power generation capex of Rs. 4.5tn. The 12th Plan envisages close to 110,000 circuit km (ckm), including lines below 400kV; and line additions of 270,000MVA, including lines below 400kV substation capacity and excluding a high-voltage direct current (HVDC) line. Further, the government has planned a total capex of Rs. 2.6tn for the 13th five year plan for PGCIL and STUs. The inter-state transmission capex has increased by more than 100% in the 13th plan to Rs. 1.3tn, backed by the government's increased focus on "One nation, One Grid" to achieve cost efficiency. Currently, 40% of the total transmission capex is for towers in which Skipper is one of the major players. There is a plethora of available opportunities for the company in the next five years (Rs. 1.04tn). Close to ~45% of the total order book of SKL comes from PGCIL. Given this backdrop, the company is poised to benefit from the capex boost provided by the government.

Capex in T&D space in the 13th Plan is expected to jump 2.73x over 11th Plan



Share of T&D in overall power capex to increase to 52% in 12th Plan from 32% in 11th Plan



Source: Company, India Infoline Research

Orders to be awarded over the next two years stand at Rs. 80,000-100,000cr, of which, the states' share is likely to be the same as that of PGCIL.

In order to maintain its market share, PGCIL is likely to infuse a capex of Rs. 1.25tn, which is 13.5% higher than the 12th plan. Strong capex over the past five years has enabled PGCIL to link most of the states to the central grid. The company has also initiated the process of increasing its capacity, creating additional pressure on state governments to execute transmission projects. Orders to be awarded over the next two years stand at Rs. 80,000-100,000cr, of which, the states' share is likely to be the same as that of PGCIL. Apart from strengthening the pipeline, PGCIL also focuses on improving its domestic manufacturing capabilities for most of its products pertaining to the government's 'Make in India' program. In line with its vision of power for all by FY19, the government launched two key schemes, Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS) (total investment at Rs. 7,500cr). DDUGJY's emphasis is on feeder separation in rural areas, whereas IPDS focuses on strengthening distribution systems in urban areas.

Skipper to benefit from focus on eastern and northeastern states

The government has plans to add 52,800ckm inter-state transmission corridor by the end of the 13th plan, which is 70% higher than the 12th plan target of 73,850ckm, to overcome the issue of power shortage and achieve cost efficiency

Strong capacity additions in power generation and imbalance in region-wise demand are the key reasons behind the government's increasing focus on raising the inter-state transmission corridor. The government has plans to add 52,800ckm inter-state transmission corridor by the end of the 13th plan, which is 70% higher than the 12th plan target of 73,850ckm, to overcome the issue of power shortage and achieve cost efficiency. Skipper is likely to benefit from inter-state transmission capacity expansions, backed by strong presence in the east and northeast, higher generation capacity, and low demand. Notably, majority of the inter-state transmission corridors located in these regions. Inter-state transmission corridors connecting the east and northeast would account for 66.4% in the 12th Plan and 57% in the 13th Plan. Capex in the 13th Plan will likely jump to 46.5% compared with the 12th Plan.

Inter-State transmission capacity (in ckm)

Transmission Corridor	10th Plan	11th Plan	12th Plan	13th Plan
East- North	3,430	12,130	17,930	25,130
East – West	1,790	4,390	12,790	21,190
East – South	3,130	3,630	3,630	7,830
East - North East	1,260	1,260	2,860	2,860
West – North	2,120	4,220	16,920	32,520
West – South	1,720	1,520	7,920	22,320
North East – North	-	-	6,000	9,000
Total	**13,450**	**27,150**	**68,050**	**120,850**

Source: Company, India Infoline Research

Transmission capacity addition (ckm)

	11th Plan end	Existing Capacity (Feb 2016)	12th Plan end	13th Plan end
HVDC Biopole Lines	9,432	9,432	16,872	27,472
765kV	5,250	24,073	32,250	54,450
400kV	106,819	146,008	144,819	174,819
Total	121,501	179,513	193,941	256,741

Source: Company, India Infoline Research

The government estimates 29% increase in capacity (400kV and above) for the 13th plan, which takes the total capacity to 229,269ck

Skipper would be a key beneficiary since 100% of its projects are high-voltage lines of 400kV and above

The government estimates 29% increase in capacity (400kV and above) for the 13th plan, which takes the total capacity to 229,269ckm. Skipper would be a key beneficiary since 100% of its projects are high-voltage lines of 400kV and above. The Power Ministry remains focused on increasing transmission capacity in the east and northeast. The government has planned transmission lines of 2,500ckm and four new 765kv and 400kv sub-stations. These schemes include interconnection between Northern and Southern parts of West Bengal, new sub-stations near Kolkata (Rajarhat, Jeerat) and Kharagpur, HVDC/AC station at Alipurduar, and first 765 kV line in West Bengal at an estimated cost of about Rs 10,000cr. These schemes would enhance the power exchange between the National Grid and West Bengal and would help in importing power from the new hydro projects in Bhutan.

Major transmission lines planned in Eastern region over the next two years

Name of the Client	Amount (in cr)
765/400kV, 2x1500MVA substation at Medinipur	364
765/400kV, 2x1500MVA substations at Jeerat	271
Ranchi (New) – Medinipur 765kV D/C line with 2x330 MVAR	1,750
Medinipur – Jeerat (New) 765kV D/C line	1,166
Medinipur – Haldia New (NIZ) (WBSETCL) 400kV D/C line (quad / HTLS)	397
LILO of both circuits of Chandithala – Kharagpur 400kV D/C line at Medinipur	10
Jeerat (New) – Subhasgram 400 kV D/C line (quad/HTLS)	367
Jeerat (New) – Jeerat (WB) 400 kV D/C line (quad/HTLS)	40
LILO of Jeerat (WB) – Subhasgram (PG) 400 kV S/C section at Rajarhat (PG)	10
2 no. 400 kV line bays at Haldia New (NIZ) (WBSETCL)	16
2 no. 400 kV line bays at Jeerat (WBSETCL)	16
System strengthening in Eastern Region for transfer of additional 500MW power to Bangladesh	950
Total Estimated cost (Rs. Crore)	**5,357**

Source: Company, India Infoline Research

The government has a comprehensive scheme for strengthening intra-state transmission and distribution systems in all northeastern states, including Sikkim. These comprise about 8,000ckm T&D lines and 234 T&D sub-stations approved by the Government of India at an estimated cost of about Rs. 10,000cr. This interconnection will facilitate enhanced exchange of power among states within the northeast and between the northeast and other parts of the country. These schemes are planned to be commissioned progressively by 2019-20.

Major transmission lines planned in northeast over the next two years

Name of the Client	Amount (in cr)
400/132 kV, 2x315 MVA S/s at Surajmaninagar	100
400/132 kV, 2x315 MVA S/s at P. K. Bari	100
Surajmaninagar - P. K. Bari 400 kV D/C line	200
2 no. 400 kV line bays at Palatana GBPP switchyard for termination of Palatana – Surajmaninagar 400kV D/C line	32
132 kV D/C line with high capacity HTLS conductor (equivalent to single moose) from AGTPP (NEEPCO) to P. K. Bari (TSECL)	10
2 no. 132 kV bays each at AGTPP (NEEPCO) and P. K. Bari (TSECL)	6
400/220 kV, 2x500 MVA S/S at New Kohima	83
Imphal – New Kohima 400 kV D/C line	297
New Kohima – New Mariani 400kV D/C line	273
Total Estimated cost (Rs. Crore)	**1,101**

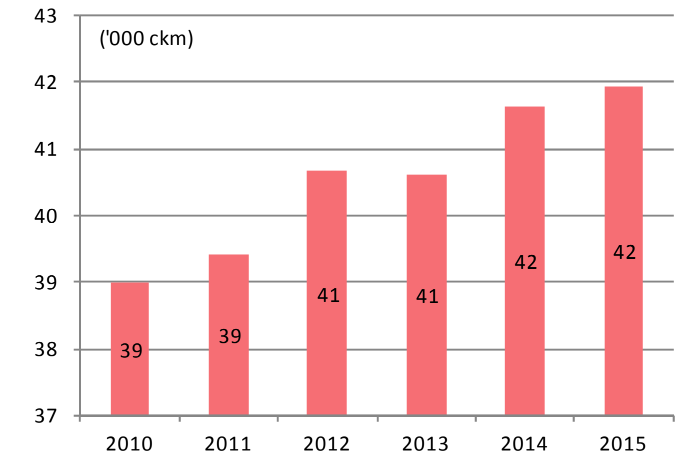
Source: Company, India Infoline Research, CEA

Exports: shot in the arm

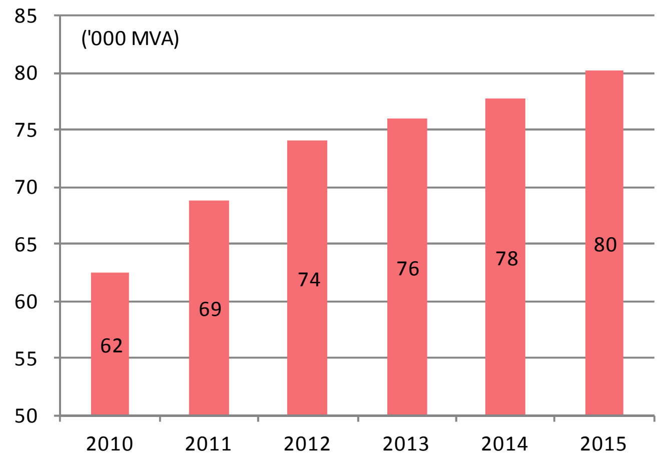
The company has already received orders worth ~Rs.1,000cr from TSO, out of the total export order of Rs. 1,200cr

Skipper entered into an agreement with TSO in Latin America in 2013 for a period of three years for exclusive supply of transmission towers for TSO's transmission projects. The company has already received orders worth ~Rs.1,000cr from TSO, out of the total export order of Rs. 1,200cr. The management expects total exports to contribute ~35% to the topline in FY16 compared with ~15% in FY15. We believe the company has a huge opportunity as TSO along with its subsidiaries is one of the largest international transporters of electric energy in Latin America, with 41,952ackm of high-voltage circuits and 80,215MVA of transformation capacity, expanding, operating, and maintaining high-voltage transmission networks in Colombia, Peru, Bolivia, Brazil, and Chile, and international interconnections between Venezuela and Colombia, Colombia and Ecuador, and Ecuador and Peru.

TSO's transmission capacity has been growing at a steady pace over the last five years



…however; transformation capacity has grown at a higher pace due to shift to high capacity lines



Source: Company, India Infoline Research, www.isa.co

During 2015, TSO was awarded projects demanding investments to the tune of ~US$1,130mn; the projects entail design and construction of 1,680 km of high-voltage circuits and commissioning of 6,750MVA of transforming capacity

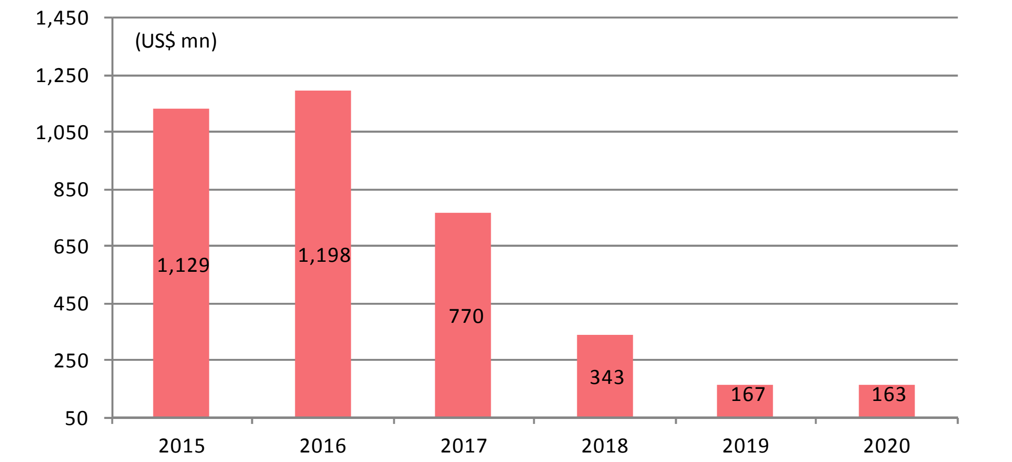
TSO is a well-established company and has achieved consistent growth over the past five years. The company has actively taken part in bid processes endorsed by national governments in order to maintain its leadership as an electric energy transporter. Consequently, during 2015, TSO was awarded projects demanding investments to the tune of ~US$1,130mn; the projects entail design and construction of 1,680 km of high-voltage circuits and commissioning of 6,750MVA of transforming capacity. We believe that the current trend of order inflow is likely to continue over the next two to three years, considering the stable growth and capex plans of the company. We expect order announcement from TSO to touch US$5.4bn over FY16E-FY18E. Skipper does not face currency risk from Latin America currencies as all the contracts are either US$ or Euro-based, which are also hedged by the company.

TSO's operational and under construction transmission lines

Country	Operational Infrastructure Transmission (ckm)	Operational Infrastructure Transformation (MVA)	Under Construction Transmission (ckm)	Under Construction Transformation (MVA)	Capex (US$ mn)
Colombia	11,895	17,999	2,200	3,045	1,033
Peru	9,871	8,819	1,659	2,715	885
Chile	-	-	1,902	2,250	1,129
Brazil	19,600	52,837	838	2,950	603
Bolivia	587	470	-	150	8
Total	**41,952**	**80,215**	**6,599**	**11,110**	**3,658**

Source: Company, India Infoline Research, www.isa.co

TSO's capex plan over the next five years



Source: Company, India Infoline Research, www.isa.co

The three year contract would end in FY17. However, the company believes that the contract would be renewed on the back of the strong relationship it has built with TSO. The company's cost effectiveness and strong execution would lead to further strengthening of ties. Backed by strong execution, Skipper has improved its presence in the export market. Apart from the supply to Latin America, the company also exports to Africa, Europe, and South Asia to countries such as Nepal and Bangladesh. However, in these countries, the company deals with EPC players and not directly with the transmission companies. The company has recently won an order from Egypt for the first time. Share of export orders of the total order book stood at 46% at the end of FY15.

Order book provides strong volume growth over FY16-18E

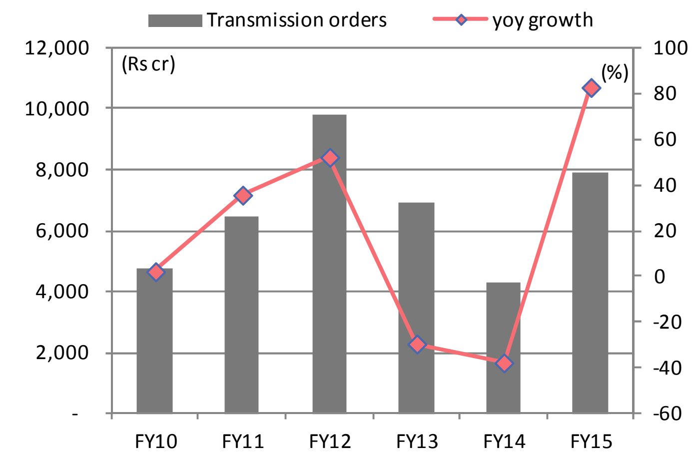
Skipper just about quadrupled its order book over FY13-15 to Rs. 2,450cr, backed by strong ordering from Power Grid and strategic tie-up with Latin America's largest transmission service operator (TSO).

Skipper just about quadrupled its order book over FY13-15 to Rs. 2,450cr, backed by strong ordering from Power Grid and strategic tie-up with Latin America's largest transmission service operator (TSO). At the end of FY15, company's order book was fairly spread between domestic and international business. Power Grid accounted for 47% (directly or indirectly) of the total order book, followed by exports with 46% share and other private players with 7% share. Order inflow was strong in FY14 and FY15 following a slowdown in order inflow during the previous three years. Over the years, Skipper has been quite selective and bids for select SEBs; it bids for projects where Power Grid is directly or indirectly involved.

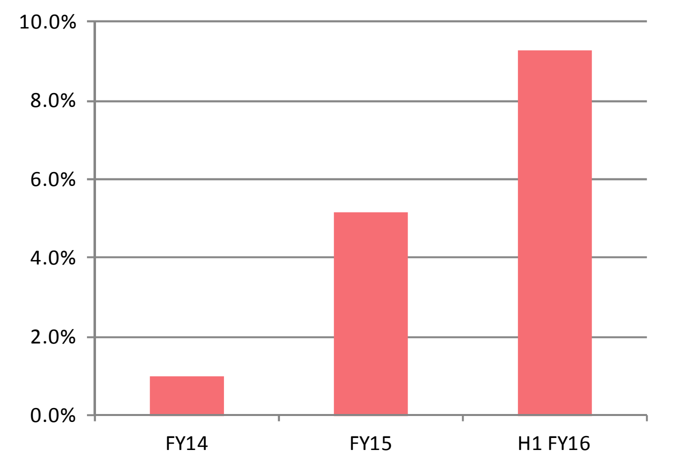
Power Grid in FY15 gave orders worth Rs. 7,899cr (higher by 82.8% yoy) for transmission towers after registering a sharp decline of 29.4% yoy in FY13 and 37.7% yoy in FY14

Order awards were significantly lower than actual capex for two consecutive years during FY13 and FY14. However, the trend has reversed from FY15, as Power Grid in FY15 gave orders worth Rs. 7,899cr (higher by 82.8% yoy) for transmission towers after registering a sharp decline of 29.4% yoy in FY13 and 37.7% yoy in FY14. During the same period, Power Grid has started to award transmission towers separately (initially bunched with transmission orders), which allowed Skipper to participate directly in Power Grid orders. The company has increased its share of transmission orders given by Power Grid to 9.2% in H1 FY16 from 1% in FY14.

Ordering by Power Grid was higher by 82.8% yoy in FY15



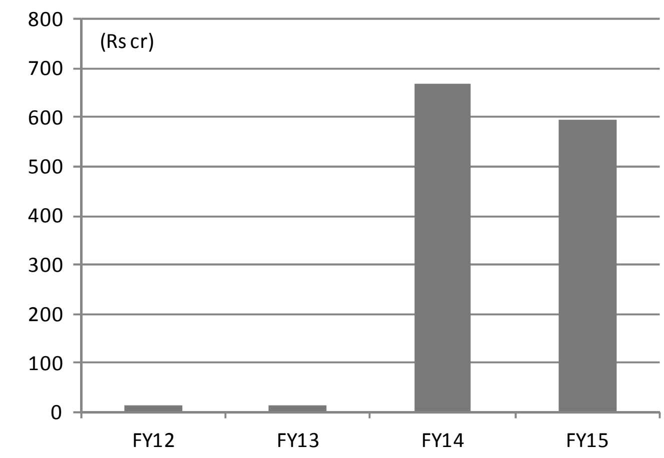
Share of Skipper of total transmission orders increased to 9.2% in H1 FY16



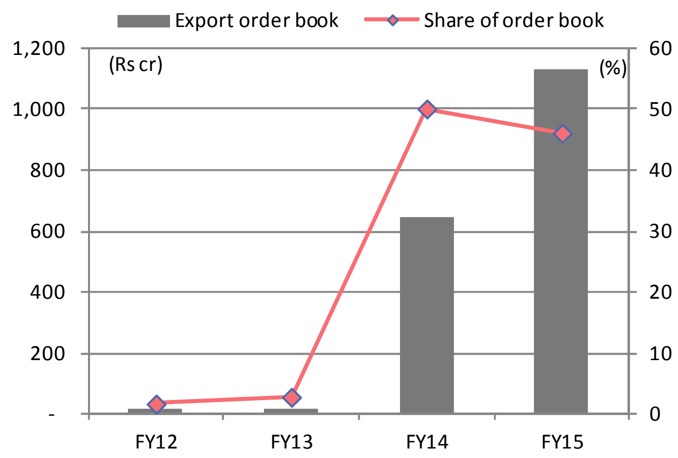
Source: Company, India Infoline Research

Skipper in FY14 entered into a strategic agreement with South America's largest TSO for exclusive supply of towers for their transmission projects. The player has a large operating base in Latin America and has been consistently showing growth. As per the agreement signed in October '13, Skipper would receive all the orders for manufacturing towers for TSO's requirement over a period of three years. Skipper has secured orders worth ~US$150mn through this agreement in FY14 and FY15. Further in FY16, the company received orders worth US$90mn under the agreement.

Export order inflow has been robust post the tie-up with Latin America's TSO



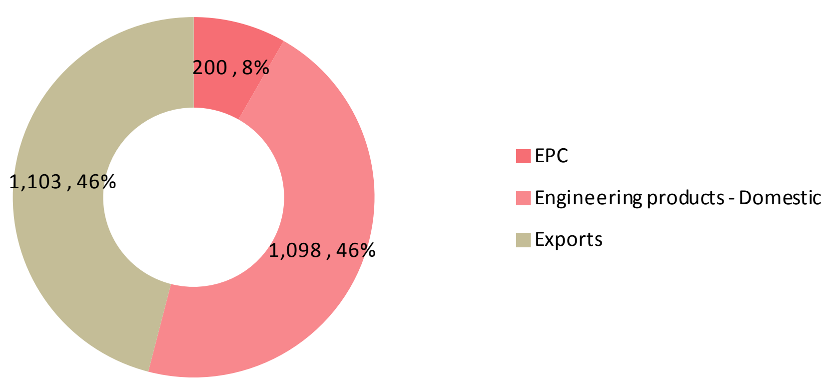
Share of exports of overall order book stood at 46% at the end of FY15



Source: Company, India Infoline Research

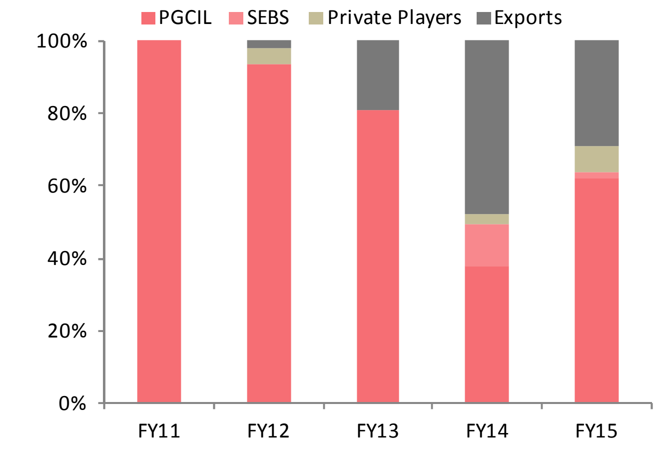
Execution of orders won has increased the scope for Skipper in the international market. Other customers in this region have also started looking at Skipper as a potential partner. The company has initiated discussions with many of them and is increasing its reach to regions such as Europe and Africa. The management also believes that relationship with TSO is extremely strong and expects the alliance agreement to be extended at the end of the three-year tenure, which ends in Q3 FY17. The company recently won its first order from Egypt. On the back of a strong order inflow from PGCIL and Exports, we expect the order book to clock 9% CAGR over FY16E-FY18E.

EPC business accounted for 8% of total order book

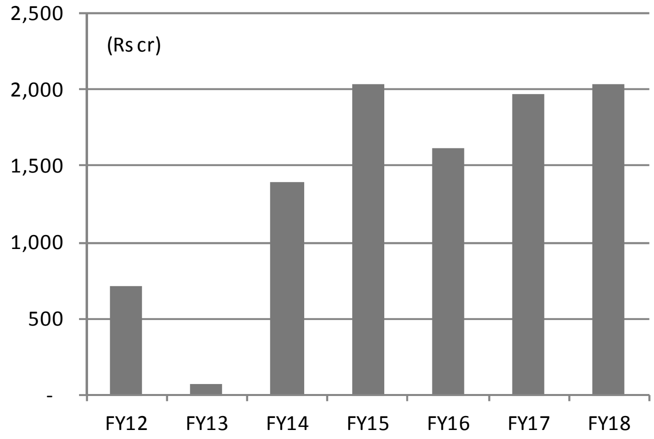


Source: Company, India Infoline Research

Order inflow has been largely from PGCIL and export orders for Latin TSO



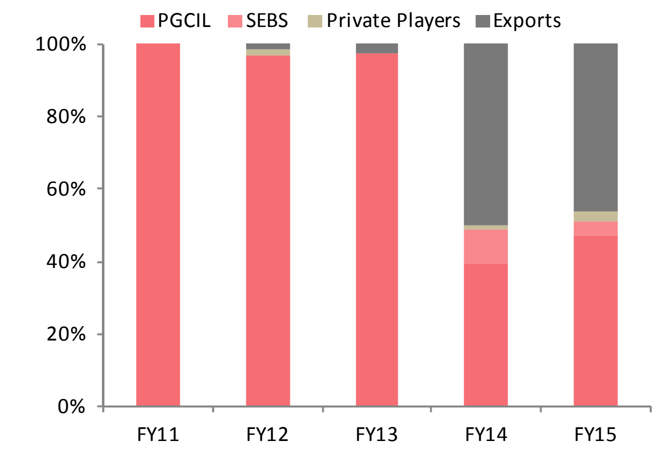
We expect order inflow to be lower by 21% yoy in FY16 due to lower ordering from PGCIL



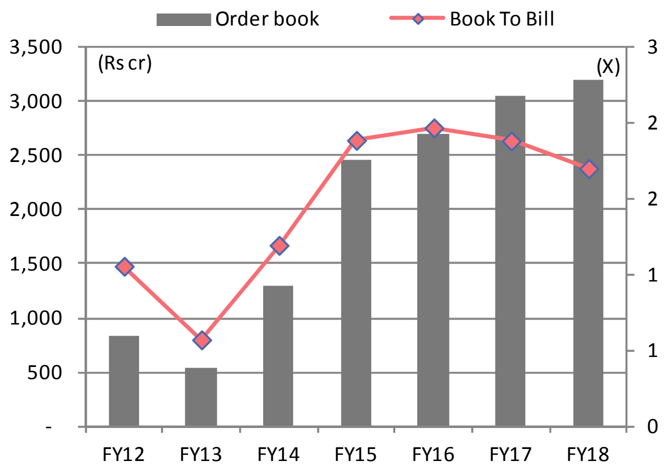
Source: Company, India Infoline Research

In 9M FY16, the company has received orders to the tune of Rs. 900cr and has bid for ~Rs. 1,500cr. It is favorably placed to rake in another Rs.400-500cr. We expect the order inflow to touch ~Rs. 1,600cr, following which, the order book at the end of the year will likely be at Rs. 2,695cr. Order inflow is likely to strengthen from FY17 onwards, as ordering from Power Grid improves and Skipper continues to increase its presence in the export market. FY17 is expected to be a strong year for order inflow as Power Grid orders were pushed to FY17. Apart from increase in TBCB orders and overall execution for Power Grid, we also expect Skipper to have a higher chance of securing new orders. We estimate the company's order book to grow 10%/13%/5% in FY16/17/18 respectively. The management is confident of registering new orders over the next two months.

Orders from PGCIL have accounted for a major share of domestic order book



Order book is expected to grow on the back of strong domestic T&D spend and increasing reach

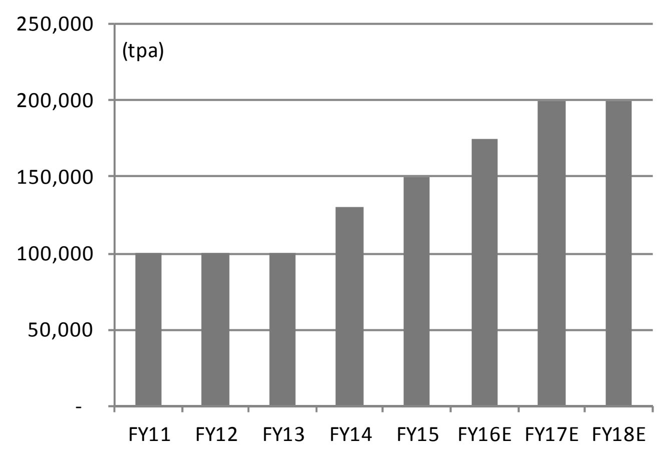


Source: Company, India Infoline Research

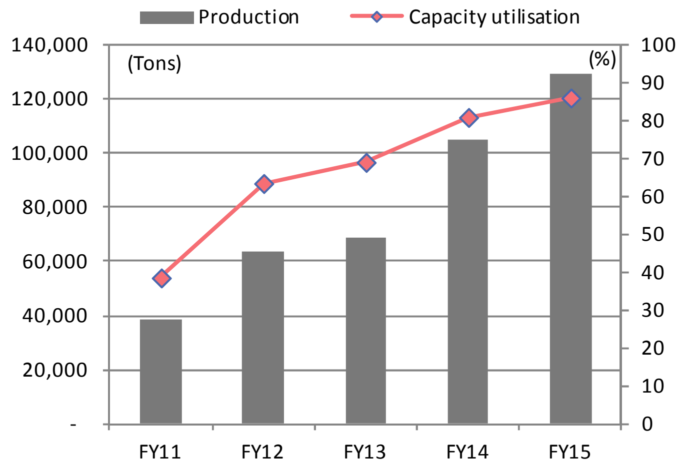
Manufacturing revenue growth led by strong volume growth and execution of export orders

Skipper has increased its tower manufacturing steadily over the years and now figures among the top three tower manufacturing companies in the domestic market. The company has raised its manufacturing capacity to 175,000tpa from 100,000tpa (during end FY13) over the past three years and is now among the top 10 tower producers globally. The management managed to spearhead manufacturing capacity increases via brownfield expansions and the company still has land to achieve more capacity increments. Capacity expansions coupled with rising utilization levels has led to ~2x jump in production volumes during FY12-15. Led by strong volume growth, Skipper registered 19% revenue CAGR over FY12-15. The engineering products division has been the growth driver for the company and accounted for 89% of net sales in FY15.

Capacity to double over FY13-17 on the back of brownfield expansions



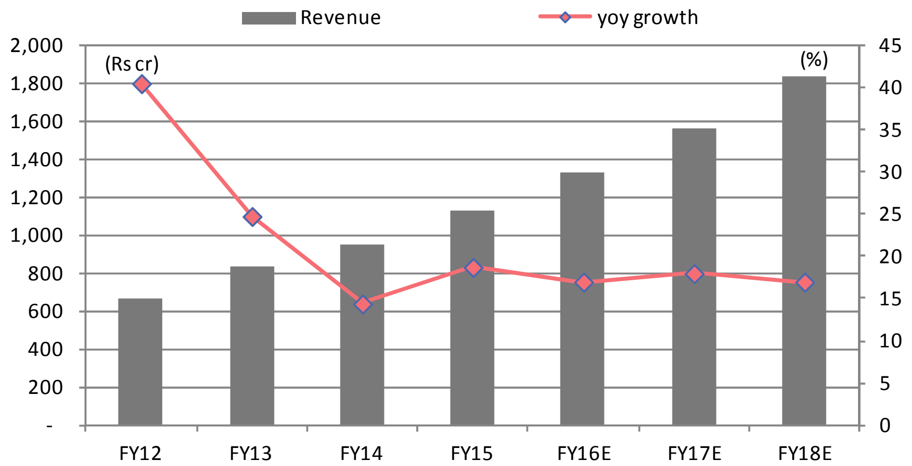
Utilization levels touched 91% in FY15



Source: Company, India Infoline Research

In 9MFY16, lower metal prices hampered the company's revenue growth. The company reported 20% yoy volume growth in the tower segment in Q3 FY16, but the segment's sales growth was just 13% yoy due to lower realization. The management believes that with a strong order book at the start of the year, it would report 20% plus growth in volumes. We estimate FY16 revenue growth to increase 17% yoy in the manufacturing division, after registering 24% growth in 9MFY16. The decline in growth rate stems from sharp correction in metal prices. Current commodity prices would allow the division to register 18% revenue growth yoy at best in FY17 and 17% in FY18. This growth would be led by strong order inflow in the domestic market and growing presence in the export market.

Manufacturing revenue growth to remain strong over FY15-18E



Source: Company, India Infoline Research

Manufacturing business margins are quite higher than peers

Skipper has one of the world's largest integrated transmission tower manufacturing companies with angle rolling, tower, accessories, and fastener manufacturing and EPC line construction. It has three manufacturing plants in Eastern India, two at Jangalpur, and one at Uluberia, all near Kolkata. Integrated operations, location advantage, focus on tower manufacturing, and rising scale have transferred the company into one of the lowest cost producers of transmission towers globally.

EBIT margin for the company has been higher than peers

Company*	FY11	FY12	FY13	FY14	FY15
Skipper	9.9	8.0	7.3	9.5	12.2
KEC International	9.5	8.3	4.9	5.5	6.7
Kalpataru Power & Transmission	10.2	10.4	9.6	10	9.5

*Source: Company, India Infoline Research, * segmental margins included*

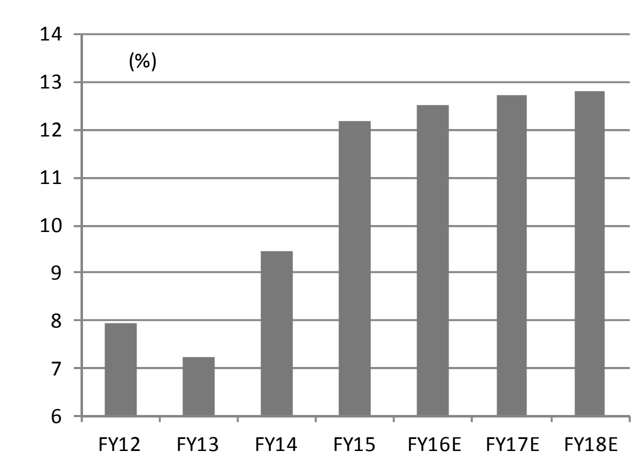
Over the past five years, Skipper has not only invested in raising capacity, but has also invested in increasing backward integration facilities. Among the domestic tower-manufacturing players, Skipper is one of the few to invest in (1) backward integration through rolling mills and (2) integration by introducing fasteners and accessories for transmission towers. Captive galvanizing plants and angle and plate CNC lines ensure highest product quality and timely supplies. As mentioned above, all the three plants are situated in Eastern India and being in the eastern part, Skipper has access to large steel manufacturers in the region. Proximity to steel plants reduces the logistics cost on raw material. Steel accounts for ~80% of the total raw material consumed in manufacturing transmission towers. Over the years, the company has focused on tower manufacturing and has increased its capacity. Focused approach and rising scale have provided the company with better negotiation power on raw material sourcing. In addition, proximity to ports hands the company an advantage in exports.

Regional surplus/deficit

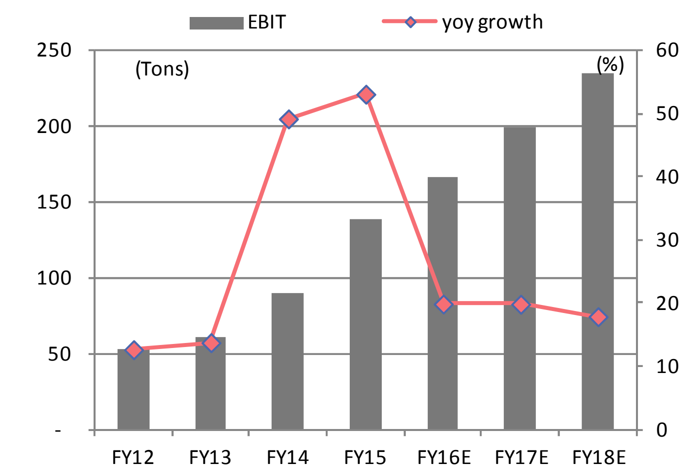
Source: Company, India Infoline Research

EBIT margin for the manufacturing business has also expanded on the back of higher share of 400kv+ tower orders. Over the past three years, Skipper has increased its margins by 420bps driven by higher utilization levels, increase in share of export orders, and higher execution of 400KV+ towers. Excluding forex impact, EBIT margin for 9MFY16 stood at 14%, which is higher than 11.4% registered in 9M FY15. EBIT margins are expected to remain high as the share of exports of overall execution increases. As per the management, export orders have higher margins compared with the domestic orders. The combination of higher execution and slight expansion in margins would lead to 19% yoy growth in EBIT in FY16. We estimate this strong growth to continue over the next three years. We expect the manufacturing division's EBIT CAGR to be at 19.2% over FY15-18E.

EBIT margin to expand 30bps over FY15-18E



EBIT to jump 70% over the same period



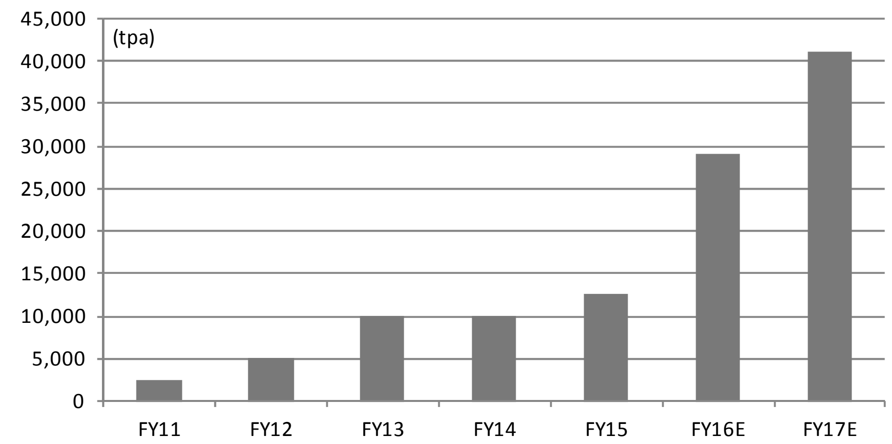
Source: Company, India Infoline Research

PVC segment contribution to surge

Skipper commenced operations of PVC business in 2009 and is now a leading manufacturer in West Bengal. It manufactures plastic pipes (PVC and CPVC pipes and fittings). Skipper has garnered ~10% market share of the PVC pipes business in eastern India over the past five years. The key consumer segments for the company include agriculture and housing. Over the past one year, the company has formulated plans to emerge as a pan India player by setting up new capacities across the country. Skipper has raised its capacity from 10,000tpa at the end of 2014 to 29,000tpa and has plans to raise this capacity further to 40,000tpa by H1 FY17.

Skipper follows an asset light model and hence incurs a capex of Rs. 8,000/tpa of capacity as against an industry average of Rs. 20,000/tpa. Skipper has raised its production capacity to 15,000tpa in Eastern India and has setup new plants with a capacity of 10,000tpa in Ahmedabad and 4,000tpa in Guwahati. It would add 15,000tpa capacity plant at Secunderabad near Hyderabad, completing all the four corners of India. For this expansion, the company has a technological tie-up with two of the world's most renowned companies Sekisui of Japan for CPVC compound and Wavin Group of The Netherlands for advanced plumbing solutions. These partnerships would enable premium brand positioning and better product differentiation.

PVC capacity to jump to 41,000tpa in FY17E from 10,000tpa in FY14



Source: Company, India Infoline Research

The plastic piping market in India is valued at ~Rs. 21,500cr; it is growing at a CAGR of 12 to 15%. Currently, 65% of the plastic piping market is with organized players such as Finolex, Astral, Jain Irrigation, and Supreme Industries. The growth in the piping industry is expected to accelerate due to the rapid shift from metal pipes to plastic pipes. Moreover, the government's thrust on water, irrigation, improving of sanitation, urbanization, the PVC pies pipes and fittings market would grow at a much faster pace. Key initiatives such as housing for all by 2022 and the proposal of developing 100 Smart cities will also spur growth in the industry. The implementation of GST could provide further help to the organized players.

PVC Capacity (MTPA)

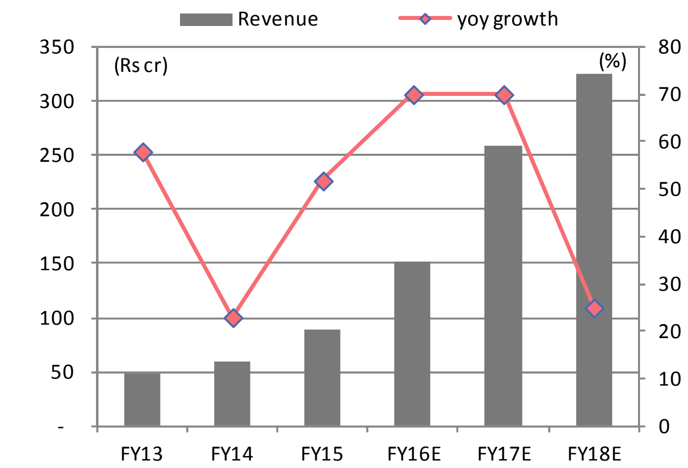
Company	Capacity (TPA)
Supreme Industries	300,000
Finolex	250,000
Jain Irrigation	200,000
Astral	102,371
Skipper	29,000

Source: Company, India Infoline Research

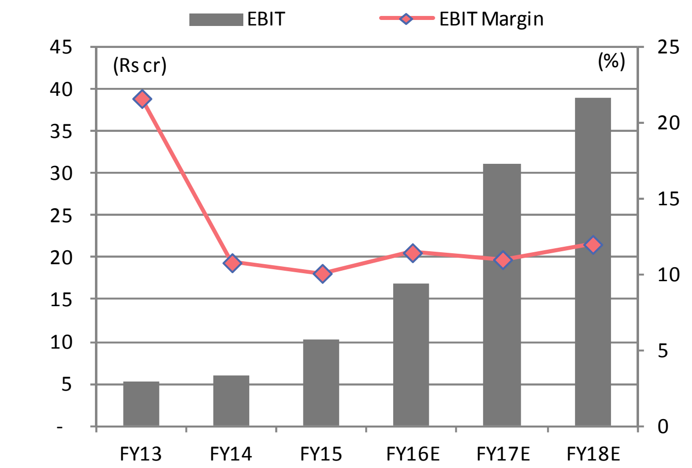
The PVC business' contribution to overall revenue has doubled during FY11-FY15 to 7.1% and is all set to contribute ~10% to total revenue in FY16

The PVC business' contribution to overall revenue has doubled during FY11-FY15 to 7.1% and is all set to contribute ~10% to total revenue in FY16. Although Skipper is still a small player in the industry, its aggressive capacity expansion, low cost advantage, widespread distributorship of over 750 channels, and strong industry growth drivers would help SKL gain market share. In 9M FY16, Skipper has outperformed peers, clocking a growth of 100% as against the industry growth of 15%. We expect the PVC business' revenue to grow at a CAGR of 50% over FY16E- FY18E and the contribution to total revenue to increase to 15% by FY18E. Currently, Skipper's 90% of PVC pipes revenue comes from retail sales, and it now looks to taper that to 60% of total revenue and concentrate on new projects.

Water division revenue to triple over FY15-18E



EBIT to surge on the back of topline growth



Source: Company, India Infoline Research

Skipper had 5% of its PVC revenue coming in from fittings, a high-margin business, which is expected to increase to 15% by FY16

EBIT has grown at a CAGR of 35% over FY11- FY15, backed by higher revenue growth. EBIT margin for the company has not been stable, as the company has been continuously expanding its capacity to make itself a PAN India player. EBIT margin is likely to improve by 100 bps to 12% starting FY17, driven by a better product mix. In FY15, Skipper had 5% of its PVC revenue coming in from fittings, a high-margin business, which is expected to increase to 15% by FY16.

EPC business contribution to remain minimal

The company remains focused on transmission tower manufacturing business and expects contribution from EPC business to remain low

The infrastructure segment comprises power T&D EPC projects as well as services for underground installation of utilities. As a step towards forward integration, Skipper ventured into the EPC space for power T&D. The company has slowly improved its execution skills by taking up relatively smaller EPC projects with an average size of Rs. 40-50cr. It has successfully commissioned its first transmission EPC project - 'Multi-circuit portion of 400kV D/C Punchkula Patiala project'. The company's revenue from the infrastructure segment clocked 65% CAGR over FY11-15 from a low base. The management stated that it would bid for projects in this category, where it is high-margin and risks pertaining to cashflow would be minimal. The company remains focused on transmission tower manufacturing business and expects contribution from EPC business to remain low.

Monopoles: to gain traction

We expect the Monopoles segment to gradually increase its contribution to overall sales over FY15-18E

Skipper's supplies steel poles and monopoles for power distribution and lighting projects in India (RGGVY and APDRP) as well as Gulf and African countries. It is one of the three companies in India, which produces monopoles and is among the four largest manufacturers of galvanized steel poles. Monopoles find their application in telecom towers and replacement of lattice towers in urban areas. Monopoles consume low ground space and require less aerial coverage. Hence, they are an ideal replacement for transmission towers. As per the management, monopoles are eliciting more business interest and operators are moving towards monopoles as they require less land. The company has a 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. As per the management, margins in the monopoles business are high at ~30-35%. As a result, the company is doubling its capacity from the current 15,000tpa over the next two years. High margin in this segment is largely due to Skipper's integrated facility of galvanizing transmission towers. We expect this segment to gradually increase its contribution to overall sales over FY15-18E.

Financial Analysis

Revenue to grow at 20% over FY15-FY18E

Skipper's revenue growth has been among the best in the industry because of its logistics advantage, backward integration, and timely execution of projects.

Skipper has shown strong growth over FY12-FY15, clocking 24.4% CAGR on the back of strong performance in its Engineering segment, which had a CAGR of 23%. The company registered strong volume growth even after restructuring its engineering division. The company has discontinued the sales of GI pipes from FY16, which contributed ~Rs. 120cr in FY15 and Rs. 280cr in FY14. The GI pipe division was affecting overall margins of the company. The company now runs the manufacturing facility on a job work for large players such as Tata Steel.

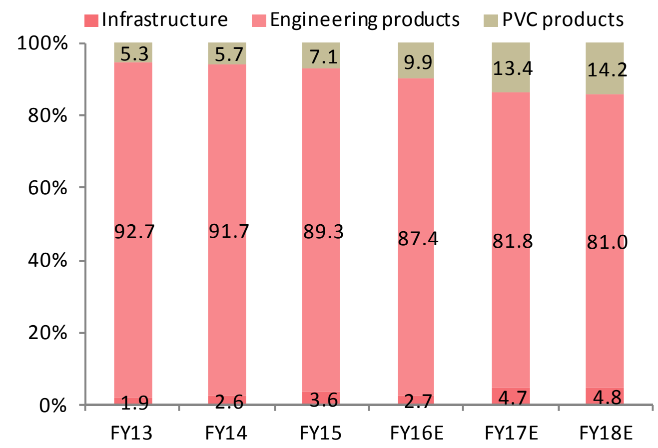
Skipper's revenue growth has been among the best in the industry because of its logistics advantage, backward integration, and timely execution of projects. In the PVC products business, Skipper has successfully penetrated the eastern region and has clocked 44% revenue CAGR over FY12-FY15. The PVC business has increased its share of total revenue to 7% in FY15 compared with 4% in FY12 due to its aggressive expansion policy.

We expect ~23% volume growth and ~17% revenue growth for Skipper in FY16 as the company has a policy of transferring cost benefits to the customer

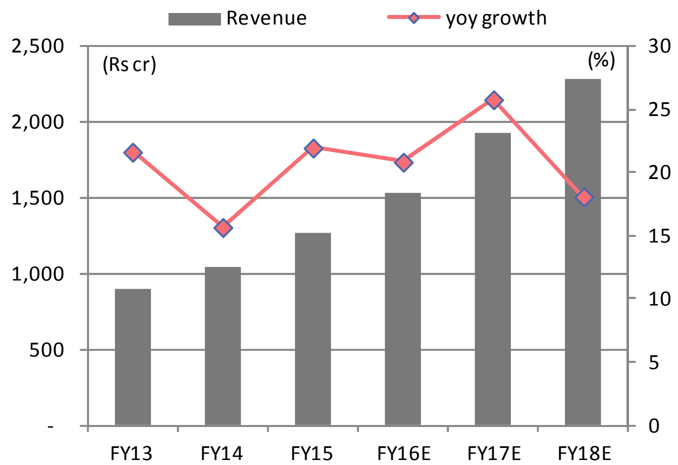
We expect ~23% volume growth and ~17% revenue growth for Skipper in FY16 as the company has a policy of transferring cost benefits to the customer. Hence, the recent fall in commodity prices would lead to lower growth in value terms in FY17. The strong contribution from the PVC products business would boost FY17 growth. Increasing reach, in addition to ramp-up of new capacities, would lead to strong growth in FY17. Over FY15-18, we expect Skipper to register 21.5% revenue CAGR on the back of higher order inflows in FY15 and FY16 for the engineering segment. Moreover, Skipper has been continuously adding capacity for the PVC business in different regions, in order to become a pan-India player rather than a zonal player. We expect the PVC business to grow at 50% CAGR over FY15- FY18.

We expect the PVC business to grow at 50% CAGR over FY15-FY18

Share of PVC products division to double over the next three years



Revenue growth to remain robust led by strong contribution from all division

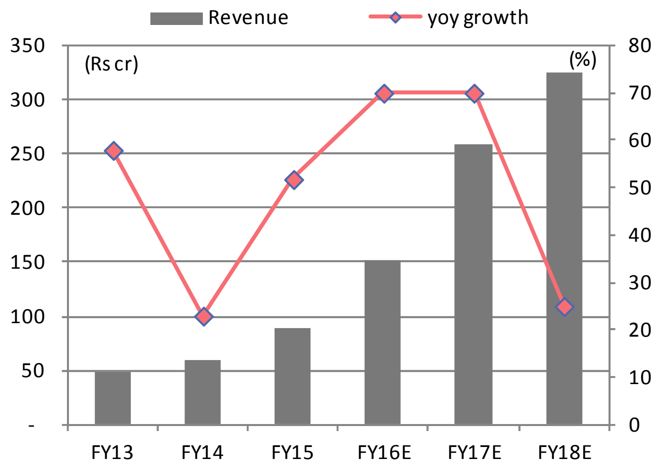


Source: Company, India Infoline Research

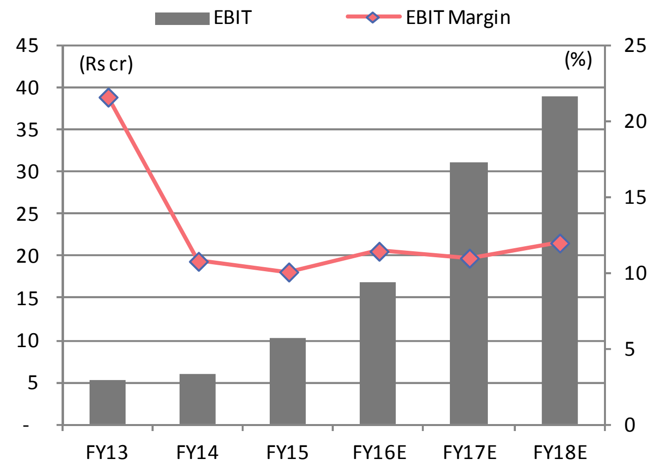
Operating margin to rise marginally

Skipper enjoys the highest margin among peers (KEC and Kalpataru), mainly due to its logistical advantage and backward integration. In FY15, the company registered its highest ever margin of 13.6% in FY15, owing to 274bps improvement in EBIT margin of the engineering segment. In the PVC segment, EBIT margin improved 140bps to 11.5% due to better operating leverage and higher revenue from high-margin products (fittings). However, we expect only 40bps improvement in margin to 14%, owing to a pass-through policy followed by the company for raw material cost. Hence, any reduction in raw material prices would be passed on to the customer. However, for the PVC segment, we expect EBIT margin to improve 100bps to 12% over FY15-FY18 because of better operating leverage. With an increase in the share of the lower-margin PVC segment, we expect the impact of higher EBIT margins in the engineering business to be curtailed. Strong execution of export orders would boost margins of the engineering business. We estimate operating profit CAGR of 22.6%, led by strong execution over the period FY15-18.

Water division revenue to triple over FY15-18E



EBIT to surge on the back of topline growth

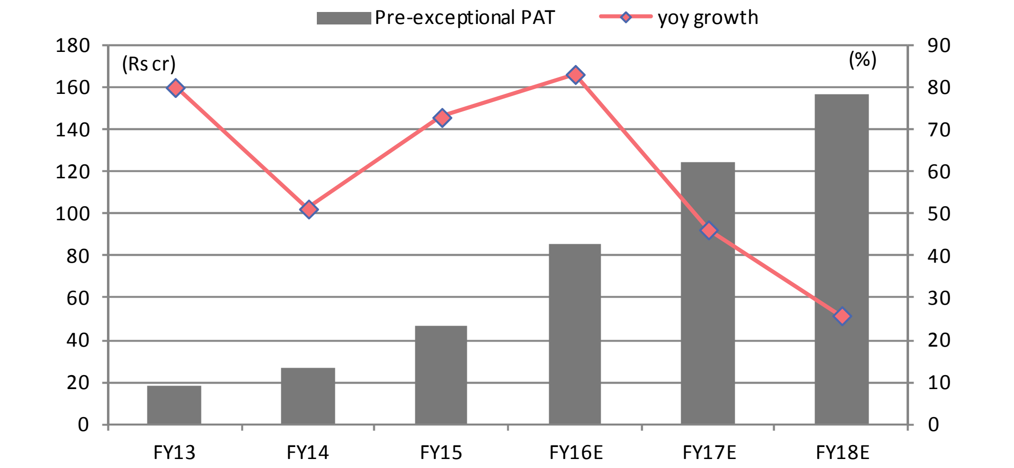


Source: Company, India Infoline Research

Pre-exceptional PAT to triple over FY15-FY18E

We expect PAT (before exceptional items) to grow 81% in FY16, backed by 20.8% revenue growth and lower effective tax rate of 34% compared with 51% in FY15. In 9M FY16, Skipper recorded bottom-line growth of 142%, driven by strong execution and higher revenue from the PVC business. We expect bottom-line growth to remain strong at 46% yoy in FY17 and 25.9% in FY18, backed by strong growth in the engineering and PVC segments.

Pre-exceptional PAT to more than triple over FY15-18E

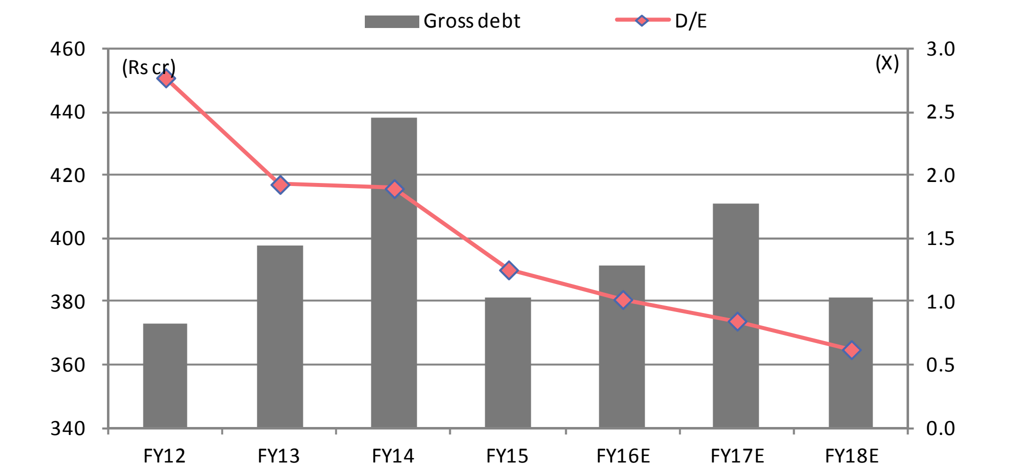


Source: Company, India Infoline Research

Debt/Equity to reduce to 0.6x by FY18E

Skipper managed to reduce its debt/equity ratio from 2.5x in FY12 to 1.3x in FY15 despite raising production capacity in both PVC and engineering. The company managed to achieve this through strong internal cashflow generation and an asset light model. Although Skipper has high expansion plans, we expect debt/equity ratio to improve to 0.6x by FY18 due to low capex requirement on the back of strong internal cashflows and the company's approach of asset light model for capacity expansion.

Pre-exceptional PAT to more than triple over FY15-18E



Source: Company, India Infoline Research

Skipper: firing on two cylinders

Order book at Rs. 2,240cr, provides healthy revenue visibility over the next two years

We estimate the company to register 17.3% revenue CAGR over FY15-18 on the back of strong order book and capex estimated in the domestic T&D capex

Skipper's earnings have almost tripled over the past three years following restructuring of its engineering division and focus on domestic T&D. A strategic alliance with South America's largest TSO has provided the company a big opportunity in the export market (49% of current order book). We believe the company would be a major beneficiary of robust capex in the domestic T&D space. Order book at Rs. 2,240cr, provides healthy revenue visibility over the next two years. We estimate the company to register 17.3% revenue CAGR over FY15-18 on the back of strong order book and capex estimated in the domestic T&D capex. We believe that with an increase in the share of export orders, higher share of 400+KV towers, and lower commodity prices, the company would manage to report 30bps expansion in margins of the engineering products division over FY15-18E

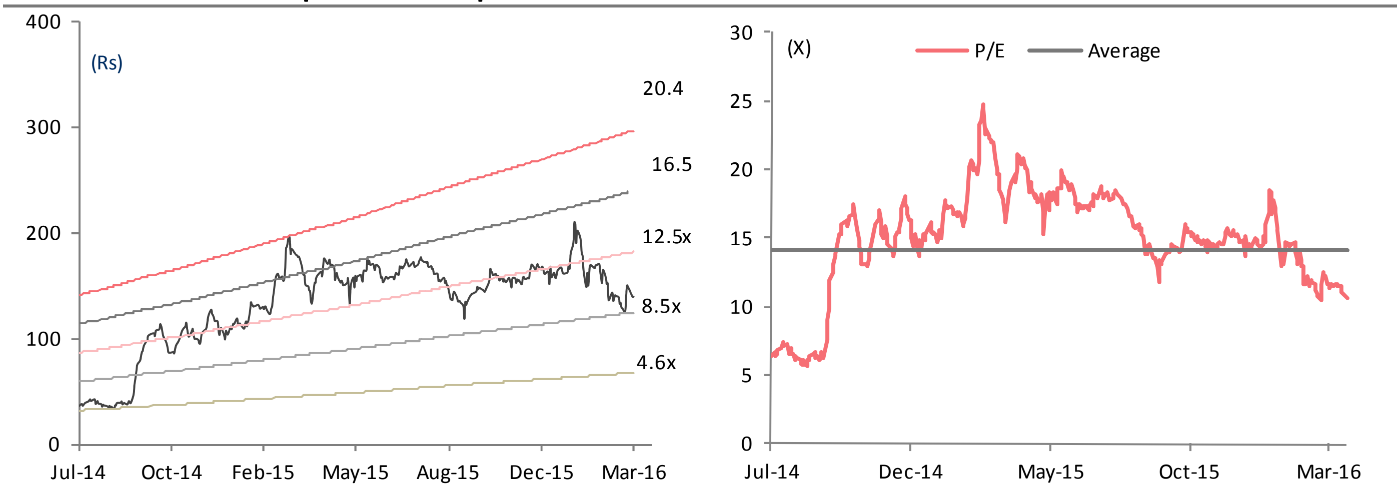
We expect PVC segment to grow at ~3.5x over FY15-18 to Rs. 324cr, led by a ramp-up of new capacities

Strong contribution from the PVC products division would also boost the company's growth. Skipper uses an asset light model and plans to raise its capacity to 41,00tpa from 12,500tpa at end-2014. Given the current expansion, it would transform into a PAN-India player. We expect this segment to grow at ~3.5x over FY15-18 to Rs. 324cr, led by a ramp-up of new capacities.

Over FY15-18, we expect Skipper to register 21.5% revenue CAGR on the back of higher order inflows for the Engineering segment and ramp-up of new capacities in the PVC products division

Over FY15-18, we expect Skipper to register 21.5% revenue CAGR on the back of higher order inflows for the Engineering segment and ramp-up of new capacities in the PVC products division. We estimate 50% earnings CAGR over FY15-18, led by strong execution and higher share of exports coupled with lower input costs. At the CMP, the company is trading at 8.5x FY18 P/E, quite attractive considering the strong earnings growth expected over FY15-18E. We value the company at 13x FY18E P/E and recommend a BUY rating with a price target of Rs. 200.

Valuations attractive post the sharp correction in the stock



Source: Company, India Infoline Research

Relative comparison: Marginally cheaper to peers; however, earnings growth superior than peers

Comparison	Mkt Cap (Rs cr)	Revenue CAGR (%)	EBIDTA (%)		EPS		P/E		RoE (%)	
		FY15-18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Skipper	1,330	21.5	13.9	14.0	12.2	15.4	10.7	8.5	28.8	28.7
KEC International	3,007	9.0	8.2	8.2	11.6	13.6	10.1	8.6	18.5	18.4
Kalpataru Power Transmission	3,147	6.9	11.1	11.1	15.0	19.1	13.6	10.7	10.0	11.7
Techno Electric and Engineering	2,992	24.3	13.9	14.0	36.2	44.0	12.4	10.2	18.6	19.2
Alstom T&D India Ltd.	10,590	13.3	10.2	11.3	10.4	13.1	39.9	31.1	16.7	19.9

Source: Company, India Infoline Research

Key Concerns:

Slower Order inflows

Skipper receives more than 87% of its orders from PGCIL and exports (mainly South America). Skipper has an alliance with TSO in Latin America, which expires by FY17. The company's order inflows would suffer in case of non-renewal of this alliance agreement. Moreover, TSO's capex plans suggest a slowdown in capex spending over FY20. Back home, any slowdown in capex spending by PGCIL may hamper order inflows for the company.

Slower execution and high competition in the PVC segment

Skipper has received ~Rs. 3400cr worth orders over FY14-FY15 due to its cost advantage. However, any delay in execution would dampen revenue growth. Moreover, the company follows a pass-through policy for the engineering segment, which means that any reduction in raw material prices would not translate into a concomitant increase in profit because the company would pass on the benefit to its customers. Skipper is a new player in the PVC segment and it faces stiff competition from established players such as Finolex, Supreme, Astral, and Jain irrigation. Skipper is continuously expanding capacity to become a PAN India player; however, failure to gain market share would hurt the company's top-line growth target of 20%.

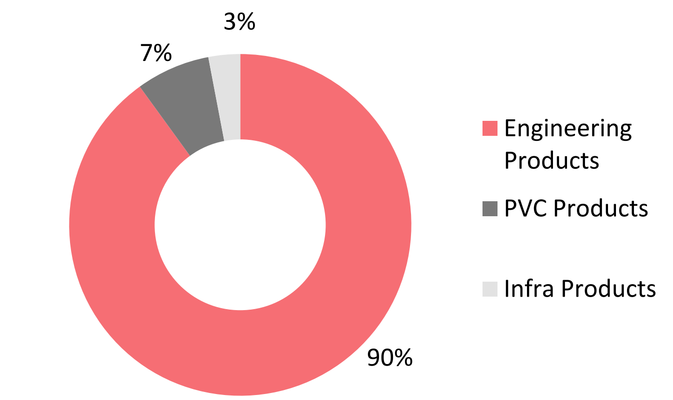
Currency Risk

Although the company hedges all its forex transaction, uncertainty over its execution timeframe could lead to forex losses.

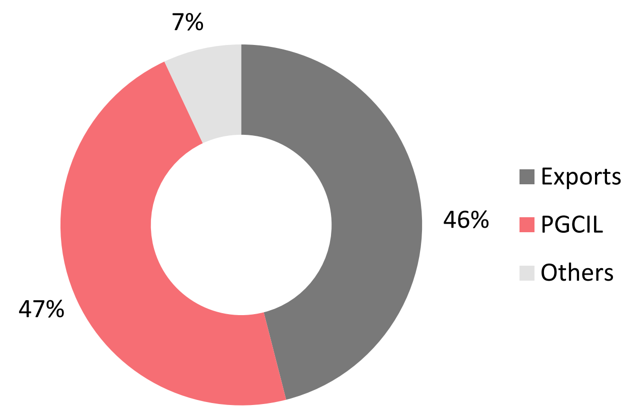
Company background

Skipper Ltd. (SKL) incorporated in 1981, is a flagship company of the SK Bansal group. It is one of the leading manufacturers and suppliers of telecom and transmission towers in India. It has the third largest capacity for manufacturing transmission towers in India (after KEC and Kalpataru) having capacity of 1,75,000tpa. Skipper has a strong foothold in east and northeast India and internationally its market reach spans 20 countries in South America, Europe, Africa, the Middle East, South and Southeast Asia, and Australia. It has signed an alliance agreement with South America's largest TSO for exclusive supply of its transmission projects.

Revenue Break - up



Order break – up



Source: Company, India Infoline Research

Skipper is also one of largest manufacturers of PVC pipes and fittings in West Bengal. It has raised its capacity to 29,000tpa and has a distributorship network spread across 750 channels. It has technological tie-up with two of the world's most renowned companies, Sekisui of Japan for CPVC compound and Wavin Group of the Netherlands for advanced plumbing solutions. Skipper has five manufacturing plants located across India with a total workforce of 1600+.

Business Segments

	Engineering business	PVC	Infra
Capacity (tpa)	1,75,000	29,000	
Product Range	• Power transmission tower	• UPVC Pipes	• Transmission Line EPC
	• Power distribution poles	• CPVC Pipes	• Underground Utility laying by HDD
	• Monopoles	• SWR Pipes	• Water EPC
	• MS & High	• Fittings	
	• Tensile Angles		
	• Fasteners		
	• Towers		
	• Accessories		
	• ERW Pipes		

Source: Company, India Infoline Research

Key Management

Name & Designation	Qualification & Experience
Sajan Kumar Bansal Managing Director	He is the driving force behind the Company's exponential growth, since the beginning of the new millennium. Under his visionary leadership, the Company has grown from a single product manufacturer to multi-unit, multiproduct manufacturer, ranging from Engineering Products to Plastics.
Devesh Bansal Director	He is a masters in International Business and heads the Tubes and Tubular Product divisions of the Company. He pioneered the production of Monopoles and is also responsible for the Group's upstream expansions.
Sharan Bansal Director	He is a graduate in Mechanical Engineering and heads the transmission tower manufacturing and EPC business of the Company. He has taken the Company to a leadership position in the T&D industry.
Siddharth Bansal Director	After completing his education in Entrepreneurship from University of Illinois, USA, he spearheaded the Company's first diversification into non-steel products. He is responsible for the fast growing PVC pipe manufacturing divisions.
Manindra Nath Banerjee Independent Director	In his long spanning service career, he has served as Managing Director as well as Chairman of over 10 State Government undertakings. He has also worked in Durgapur Steel plant on deputation from State Government.
Mamta Binani Independent Director	Mrs. Binani is presently Vice President of the Institute of Company Secretary of India and occupied as one of the leading practicing Company Secretary from the eastern India. Her professional career includes 17 years of experience in corporate consultation & advisory.
Shyam Bahadur Singh Independent Director	He joined Steel Authority of India Ltd as a graduate engineer in 1959. Later, he rose to become the Managing Director of Durgapur Steel plant and a Director on the Board of SAIL in 1993, finally retiring from that position in 2001.
Amit Kiran Deb Independent Director	He has held several responsible and important portfolios in the West Bengal State Government, before finally retiring as Chief Secretary and Tourism Secretary. He has profound knowledge and experience in various industries.

Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenue	1,270	1,535	1,930	2,280
Operating profit	**173**	**208**	**269**	**318**
Depreciation	(22)	(25)	(29)	(32)
Interest expense	(58)	(57)	(55)	(54)
Other income	2	4	5	5
Profit before tax	**94**	**129**	**189**	**238**
Taxes	(47)	(44)	(64)	(81)
Minorities and other	0	0	0	0
Adj. profit	**47**	**85**	**125**	**157**
Exceptional items	43	16	0	0
Net profit	**89**	**101**	**125**	**157**

Balance sheet

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Equity capital	10	10	10	10
Preference capital	0	0	0	0
Reserves	294	373	474	601
Net worth	**304**	**383**	**484**	**611**
Minority interest	0	0	0	0
Debt	381	391	411	381
Deferred tax liab (net)	26	28	28	28
Total liabilities	**711**	**803**	**923**	**1,020**
Fixed assets	355	380	405	430
Net working capital	**301**	**376**	**477**	**545**
Inventories	228	305	383	452
Sundry debtors	376	408	497	558
Other current assets	49	61	77	91
Sundry creditors	(242)	(275)	(346)	(409)
Other current liabilities	(111)	(122)	(134)	(147)
Cash	56	47	42	46
Total assets	**711**	**803**	**923**	**1,020**

Cash flow statement

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Profit before tax	94	129	189	238
Depreciation	22	25	29	32
Tax paid	(47)	(44)	(64)	(81)
Working capital Δ	18	(76)	(101)	(68)
Operating cashflow	86	35	53	121
Capital expenditure	(30)	(50)	(54)	(57)
Free cash flow	**56**	**(15)**	**(1)**	**64**
Debt financing/ disposal	(57)	10	20	(30)
Dividends paid	(16)	(22)	(24)	(30)
Other items	47	18	-	-
Net Δ in cash	**30**	**(9)**	**(5)**	**4**

Key ratios

Y/e 31 Mar	FY15	FY16E	FY17E	FY18E
Growth matrix (%)				
Revenue growth	22.0	20.8	25.8	18.1
Op profit growth	56.6	20.3	29.5	18.4
EBIT growth	56.5	22.4	31.2	19.3
Net profit growth	73.0	83.2	46.3	25.9
Profitability ratios (%)				
OPM	13.6	13.5	13.9	14.0
EBIT margin	12.0	12.1	12.7	12.8
Net profit margin	3.7	5.6	6.5	6.9
RoCE	21.7	24.6	28.3	30.0
RoNW	17.4	24.8	28.8	28.7
RoA	4.8	7.5	9.6	10.5
Per share ratios				
EPS	4.6	8.3	12.2	15.4
Dividend per share	1.3	1.8	2.0	2.5
Cash EPS	6.7	10.8	15.0	18.5
Book value per share	29.7	37.5	47.3	59.7
Valuation ratios (x)				
P/E	28.5	15.6	10.7	8.5
P/CEPS	0.0	0.0	0.0	0.0
P/B	4.4	3.5	2.7	2.2
EV/EBIDTA	9.6	8.1	6.3	5.2
Payout (%)				
Dividend payout	34.4	25.5	19.3	19.2
Tax payout	50.4	34.0	34.0	34.0
Liquidity ratios				
Debtor days	108	97	94	89
Inventory days	66	72	72	72
Creditor days	69	65	65	65
Leverage ratios				
Interest coverage	2.6	3.3	4.4	5.4
Net debt / equity	1.1	0.9	0.8	0.5
Net debt / op. profit	1.9	1.7	1.4	1.1

Du-Pont Analysis

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Tax burden (x)	0.50	0.66	0.66	0.66
Interest burden (x)	0.62	0.69	0.77	0.82
EBIT margin (x)	0.12	0.12	0.13	0.13
Asset turnover (x)	1.31	1.36	1.48	1.53
Financial leverage (x)	3.64	3.29	3.00	2.72
RoE (%)	**17.4**	**24.8**	**28.8**	**28.7**

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Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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