



CMP	112	Rating	BUY
Target	185	Upside	66%

**Engineering & Polymer segments aid growth in topline**- For the qtr., Skipper reported a topline growth of 20.0% YoY to Rs 4.8bn, primarily due to a 10.7% YoY increase in the Engineering segment revenue (~84% of total rev) to Rs. 4.0bn, while the Polymer Products segment (~12% of total rev) also reported a growth of 29.5% YoY to Rs. 0.6bn.

**Spike in Rmat cost dents OPM** - EBTDA for the qtr., declined by 12.9% YoY to Rs. 0.4bn with OPM contracting by 355bps YoY to 9.4%, which was mainly attributable to a 602bps YoY increase in Rmat cost, however further contraction was arrested by a 211bps YoY fall in Other Expenses.

Engineering Products EBIT margins contracted by ~209bps to 9.9%, whereas Polymer Products reported an EBIT loss as compared to an EBIT margin of 7.1% in Q1FY18.

**Weaker Operating Show & higher Finance cost dent PAT**- PAT for the qtr declined by 71.9% YoY to Rs. 45mn, impeded by a weak operating performance coupled with a higher Finance Cost by 62.6% to Rs. 274.0mn. NPM contracted by 307bps YoY to 0.9%.

#### STOCK DETAILS

BSE Code	538562
NSE Code	SKIPPER
Market Cap (Rs.bn)	12.0
Sector	Construction & Engineering
Group/Index	B/ S&P BSE SmallCap
Year End	March
52 w.High/Low	293/115
Avg Monthly Turnover (Rs.mn)	187.3
Shares in Issue (mn)	102.6
BSE Sensex	37,664
NSE Nifty	11,385

**About the company:** Skipper Ltd is one of the world's leading manufacturers for Transmission & Distribution Structures (Towers & Poles) in its Engineering Products segment and is also a leading and respected brand in the Plastic Water Pipes sector as well as trusted partner for executing critical Infrastructure EPC projects. Skipper's market reach spans across 20 countries around the globe from South America, Europe, Africa, the Middle East, South and Southeast Asia and Australia. Within India, we are a preferred manufacturer of choice for our customers pan India, from J&K to Tamil Nadu and from North East India to Gujarat.

#### CONSOLIDATED FINANCIALS

Rs in bn	FY17	FY18	FY19E	FY20E
Revenue	16.6	20.7	24.1	27.7
EBIDTA	2.7	3.0	3.0	3.5
EBIDTA(%)	16.3%	14.6%	12.5%	12.7%
PAT	1.2	1.2	1.1	1.4
EPS (Rs.)	12.1	11.4	10.6	14.5
P/E (x)	9.6	10.2	10.6	7.7

Source: Company, Indsec Research

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Result (Rs.bn)	Q1FY19	Q1FY18	Q4FY18	Y/Y(%)	Q/Q(%)
Revenue	4.8	4.0	5.9	+20.0%	-19.3%
EBITDA	0.4	0.5	1.1	-12.9%	-58.6%
EBITDA(%)	9.4%	12.9%	18.3%	-355bps	-892bps
PAT	0.04	0.2	0.5	-71.9%	-90.9%
PAT(%)	0.9%	4.0%	8.3%	-307bps	-738bps
EPS	0.44	1.56	4.80	-71.9%	-90.9%

#### Key Takeaways:

**Business Segment Performance**- The topline for the company reported a growth on back of better performance in their key segments.

⇒ **Engineering Products:** On a like to like post excise adjustment basis, this segment reported a 20.2% YoY jump in topline to Rs. 4.0bn, on back of strong volume execution. EBITDA (excluding forex) in this segment grew by 40.4% YoY to Rs. 478.1mn, with margins expanding by ~170bps YoY to 11.8%.

⇒ **Polymer Products:** This segment reported a 45.9% YoY growth in revenue to Rs. 560.9mn as a result of process streamlining done by Vector Engineering. EBITDA (exc. Forex) declined by 81.8% YoY to Rs. 6.5mn and margins came in at 1.2% (vis-à-vis 9.3%) in Q1FY18.

⇒ **Infrastructure Segment:** The EPC division contributes a very civil share in the total offerings portfolio of the company. Revenue in this segment declined by 23.7% YoY to Rs. 185.2mn and EBITDA (exc. Forex) also declined by 21.3% YoY to Rs. 23.8mn, however margins expanded by 40bps YoY to 12.9%.

**Polymer Products revamping** - Skipper has engaged Vector Engineering to revamp their PVC products portfolio and strong processes have been implemented by them which has helped the company in streamlining their supply chain and building stronger ties with Channel partners. However, the company will continue to focus heavily on brand building and penetration of newer markets which is likely to put margins in this segment under pressure for the next 2-3 qtrs.

**Forex Impact** - The forex volatility impacted the numbers for Skipper in this qtr as they incurred a loss of Rs. 59mn in Q1FY19 vis-à-vis a gain of Rs. 109mn in Q1FY18. However, mgmt. has guided that a major chunk of it is notional in nature.

**Outlook** - Skipper saw a significant dent in margins in the qtr on account of spike in Rmat cost which couldn't be controlled as there was higher execution of fixed cost contracts. The order book of the company is well diversified and currently stands at Rs. 25bn, which computes to a Book to Bill ratio of ~1.2x (TTM). This qtr saw an inflow of ~Rs. 2.3bn in this qtr. Going ahead, the mgmt has guided for a minimum 15% growth in topline with margins coming in at ~13% for FY19.

**Valuation and View:** Skipper's performance in Q1 was well below our estimates as margin contraction & higher working capital requirements dented overall growth.

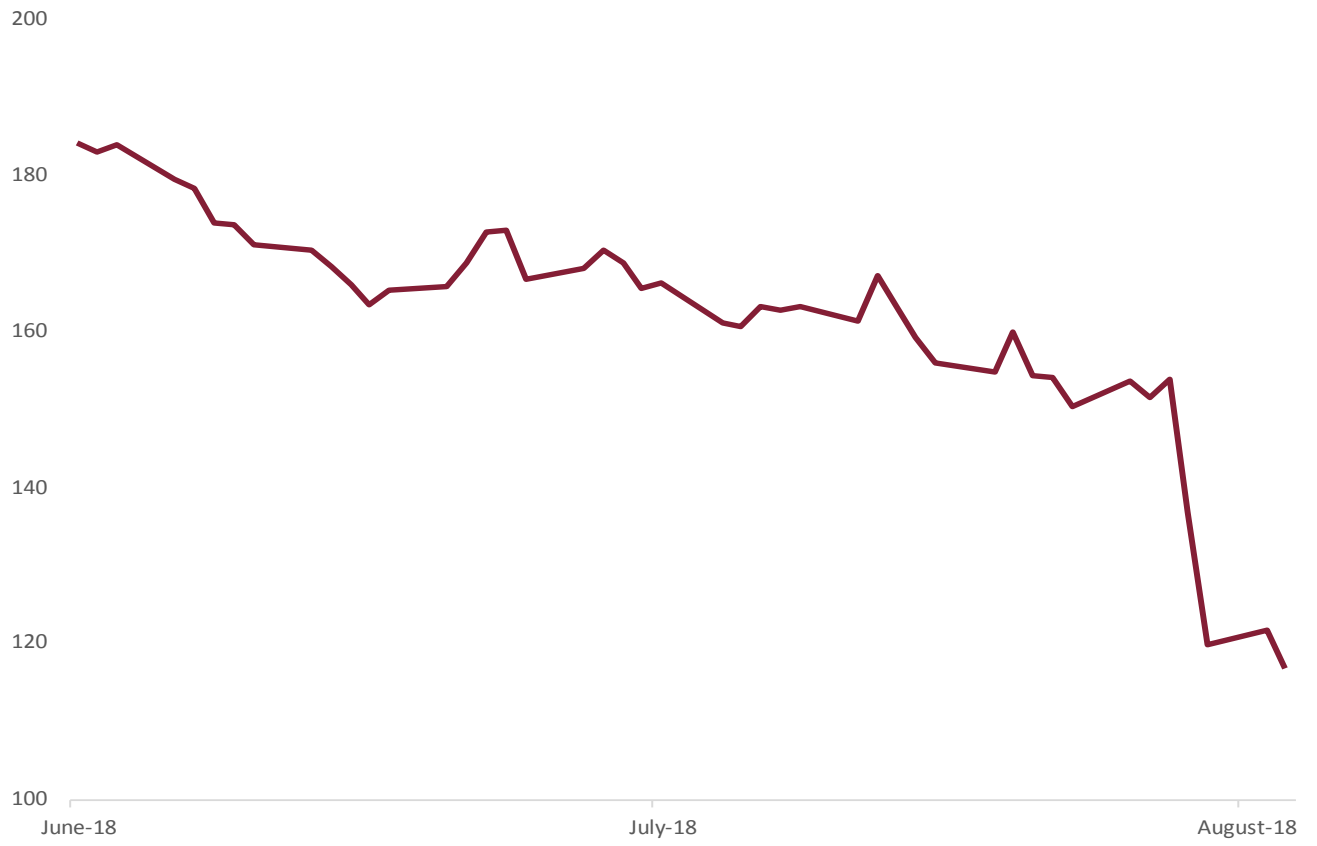
In terms of business segments, the towers segment was impacted owing to the execution of higher fixed price contracts during the Q1, however the segment is expected to bounce back mainly owing to improved macro environment and also steady margins ~12-13%. The Polymer products segment posted a healthy growth of 45.9% YoY in revenue but the company's focus on brand building and penetration of new markets has led to erosion in margins on EBIT level as this segment reported a loss this qtr. Going ahead, margins in the segment will continue to be under pressure for the next couple of qtrs. Further, increased working capital requirements has led to a spike in cost of capital. However, this working capital spike is expected to normalize post Q2FY19.

In light of the above hurdles, we have cut our earnings estimates for FY19E and FY20E by 23.6%/17.7% respectively to Rs. 10.55 (Rs. 13.81) and Rs. 14.49 (Rs. 17.61), respectively.

**We now expect the Topline to grow at CAGR of 15.5% over FY18-FY20E, while EBITDA is expected to grow at CAGR of 6.7% with margins expecting to remain around the 12.45% region.**

**At CMP of Rs. 112 the stock is trading at 10.6x FY19E and 7.7x FY20E on expected earnings of Rs 10.6 and Rs 14.5 for FY19E & FY20E respectively. The macro environment in the Power T&D is challenging given the bleak order flows from PGCIL. However, we continue to bank on the diversified order book of Skipper and expect the Non-T&D products share to grow at a healthy rate and step up their share of the pie. Focusing in the stringent industry conditions and the near term pressure on the margins of Skipper, we have reduced our target multiple downwards to 13x (16x) on FY20E earnings of Rs. 14.5 post which we arrive at a target price of Rs. 185, which implies an upside of 66% from current levels. We assign a BUY call on the stock.**

## Stock Price movement from Initiation (13th June 2018) to 16th August, 2018



SUMMARY INCOME STATEMENT							
(in mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	10,426	13,554	15,501	16,646	20,737	24,067	27,655
Cost Of Revenues (incl Stock Adj)	7,600	8,797	9,485	10,908	13,246	15,885	17,975
<b>Gross Profit</b>	<b>2,826</b>	<b>4,756</b>	<b>6,016</b>	<b>5,738</b>	<b>7,491</b>	<b>8,183</b>	<b>9,679</b>
Employee Cost	274	341	500	745	934	1,143	1,383
Other Operating Expenses	1,439	1,838	2,885	2,271	3,532	4,091	4,646
<b>EBITDA</b>	<b>1,113</b>	<b>2,577</b>	<b>2,631</b>	<b>2,722</b>	<b>3,025</b>	<b>2,948</b>	<b>3,650</b>
Other Income	21	17	52	32	22	26	30
Net Interest Exp.	605	583	570	671	784	897	968
Depreciation	151	220	241	316	459	502	551
Exceptional Items	0	0	0	0	0	0	0
<b>PBT</b>	<b>378</b>	<b>1,791</b>	<b>1,872</b>	<b>1,767</b>	<b>1,804</b>	<b>1,576</b>	<b>2,161</b>
Tax	98	474	482	525	626	489	670
Profit After Tax	<b>280</b>	<b>1,317</b>	<b>1,390</b>	<b>1,242</b>	<b>1,178</b>	<b>1,087</b>	<b>1,491</b>
EPS	<b>2.72</b>	<b>8.72</b>	<b>9.30</b>	<b>12.14</b>	<b>11.43</b>	<b>10.55</b>	<b>14.49</b>

SUMMARY BALANCE SHEET							
(in mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Assets</b>							
Net Block	3,385	3,513	3,852	4,968	5,209	5,323	5,521
Capital WIP	83	35	399	144	16	150	150
Intangible Assets under development	-	-	-	-	-	-	-
Other Non current Assets	21	31	22	156	29	29	29
Long term loans and advances	-	-	-	8	9	9	9
<b>Current Assets</b>							
Current Investment	-	-	-	-	-	-	-
Inventories	2,290	2,282	2,500	3,682	5,623	6,396	7,198
Trade receivables	2,318	3,758	3,724	3,722	5,164	5,934	6,667
Cash and Bank Balances	263	561	498	249	176	340	1,008
Short-term loans and advances	455	458	907	39	36	66	76
Other Current Assets	-	-	-	940	1,174	1,319	1,440
<b>Total Current Assets</b>	<b>5,326</b>	<b>7,059</b>	<b>7,629</b>	<b>8,632</b>	<b>12,173</b>	<b>14,056</b>	<b>16,388</b>
<b>Current Liabilities &amp; Provisions</b>							
Trade payables	1,563	2,415	2,124	2,892	4,903	5,539	6,213
Other current liabilities	626	1,277	938	886	956	966	932
Short-term provisions	25	208	193	5	1	-	-
<b>Total Current Liabilities</b>	<b>2,214</b>	<b>3,900</b>	<b>3,255</b>	<b>3,782</b>	<b>5,861</b>	<b>6,504</b>	<b>7,145</b>
<b>Net Current Assets</b>	<b>3,112</b>	<b>3,159</b>	<b>4,374</b>	<b>4,850</b>	<b>6,312</b>	<b>7,551</b>	<b>9,244</b>
<b>Total Assets</b>	<b>6,602</b>	<b>6,736</b>	<b>8,648</b>	<b>10,126</b>	<b>11,575</b>	<b>13,062</b>	<b>14,953</b>
<b>Liabilities</b>							
Share Capital	102	102	102	102	103	103	103
Reserves and Surplus	2,209	2,936	3,713	5,219	6,270	7,358	8,849
<b>Total Shareholders Funds</b>	<b>2,312</b>	<b>3,039</b>	<b>3,815</b>	<b>5,321</b>	<b>6,373</b>	<b>7,460</b>	<b>8,951</b>
Money Received against warrants	-	-	-	-	-	-	-
<b>Total Debt</b>	<b>4,062</b>	<b>3,431</b>	<b>4,504</b>	<b>4,154</b>	<b>4,613</b>	<b>5,013</b>	<b>5,413</b>
Long Term Provisions	-	2	13	24	44	44	44
Other Long Term Liabilities	10	-	-	2	6	6	6
Net Deferred Tax Liability	218	265	315	626	539	539	539
<b>Total Liabilities</b>	<b>6,602</b>	<b>6,736</b>	<b>8,648</b>	<b>10,126</b>	<b>11,575</b>	<b>13,062</b>	<b>14,953</b>

SUMMARY CASH FLOW STATEMENT							
(in mn)	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	367	1,366	1,433	1,767	1,804	1,576	2,161
Depreciation & Amortisation	151	220	241	316	459	502	551
Other Adjustments	622	612	589	664	784	897	968
(Inc) / Dec in Working Capital	(85)	(121)	(1,157)	(412)	(1,372)	(908)	(861)
Taxes	(48)	(338)	(455)	(452)	(626)	(489)	(670)
<b>Cash from Ops.</b>	<b>1,007</b>	<b>1,738</b>	<b>651</b>	<b>1,883</b>	<b>1,049</b>	<b>1,578</b>	<b>2,150</b>
Capital Expenditure & investments	(316)	(316)	(919)	(797)	(571)	(750)	(750)
<b>Cash from Investing</b>	<b>(316)</b>	<b>(316)</b>	<b>(919)</b>	<b>(797)</b>	<b>(571)</b>	<b>(750)</b>	<b>(750)</b>
Issue of Share capital	-	-	-	-	-	-	-
Net Borrowings	(181)	(566)	853	(304)	459	400	400
Others	(602)	(576)	(565)	(671)	(784)	(897)	(968)
Issuance of Dividend	(11)	(18)	(160)	(172)	(194)	(194)	(194)
<b>Cash from Financing</b>	<b>(794)</b>	<b>(1,160)</b>	<b>128</b>	<b>(1,147)</b>	<b>(518)</b>	<b>(690)</b>	<b>(762)</b>
Extraordinary receipts/payment	-	-	-	-	-	-	-
<b>Net Change in Cash</b>	<b>(103)</b>	<b>261</b>	<b>(140)</b>	<b>(61)</b>	<b>(41)</b>	<b>138</b>	<b>638</b>
BF Cash	128	25	286	146	15	8	173
Forex	-	-	-	(70)	34	27	29
<b>END Cash</b>	<b>25</b>	<b>286</b>	<b>146</b>	<b>15</b>	<b>8</b>	<b>173</b>	<b>840</b>

SUMMARY RATIOS							
	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b><u>Profitability</u></b>							
Return on Assets	3.1%	8.4%	8.0%	8.9%	6.8%	5.6%	6.7%
Return on Capital	14.9%	29.9%	23.5%	25.4%	23.4%	19.6%	21.6%
Return on Equity	11.6%	29.3%	24.9%	23.3%	18.5%	14.6%	16.7%
<b><u>Margin Analysis</u></b>							
Gross Margin	27.1%	35.1%	38.8%	34.5%	36.1%	34.0%	35.0%
EBITDA Margin	10.6%	16.4%	14.6%	16.4%	14.6%	12.3%	13.2%
Net Income Margin	2.6%	6.8%	6.3%	7.5%	5.7%	4.5%	5.4%
<b><u>Short-Term Liquidity</u></b>							
Current Ratio	1.3x	1.3x	1.3x	1.4x	1.4x	1.4x	1.5x
Quick Ratio	1.3x	1.2x	1.3x	1.4x	1.4x	1.4x	1.4x
Avg. Days Sales Outstanding	81	104	90	82	91	90	88
Avg. Days Inventory Outstanding	80	63	61	81	99	97	95
Avg. Days Payables	55	67	51	63	86	84	82
<b><u>Long-Term Solvency</u></b>							
Total Debt / Equity	1.8x	1.1x	1.2x	0.8x	0.7x	0.7x	0.6x
EBITDA / Interest Expense	1.6x	3.3x	3.4x	3.6x	3.3x	2.7x	3.2x
<b><u>Valuation Ratios</u></b>							
EV/EBITDA	13.8x	6.6x	7.0x	5.6x	5.2x	5.5x	4.3x
PER	41.0x	12.8x	12.0x	9.2x	9.8x	10.6x	7.7x
P/B	4.9x	3.8x	3.0x	2.1x	1.8x	1.5x	1.3x

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**ACCUMULATE** : Expected total return between 10 to 25% within the next 12 months.

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**SELL** : Expected total return is below the market return within the next 12 months.

**NEUTRAL**: No investment opinion on the stock under review.

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