INDIA

Buy

Skipper Ltd

Engineering & Capital goods

Initiating Coverage | 10 December 2015

'Tower'ing glory, initiate with Buy

We commence coverage on Skipper Ltd (Skipper), a leading manufacturer of transmission structures (towers & poles), with a BUY and TP of Rs230 (~52% upside). We believe that the company's cost advantage over peers due to backward integration and location advantage for material procurement, its long-term agreement with one of the biggest Transmission Service Operators (TSO) in Latin America, and increasing transmission capex will be major growth drivers. With our earnings CAGR estimate at 43%, and RoEs and RoCEs at 28%, Skipper could outperform peers in growth and return ratios. We expect order inflows to grow at 17% CAGR over FY15-18E, led by robust growth in domestic market and flattish export orders.

- **Enviable combo of positive sector outlook and cost advantage:** With GoI's recent announcement for awarding Rs1,000bn worth of transmission projects in FY16E, order inflows in the transmission sector is expected to improve in 2HFY16E. With plans to improve grid connectivity along with generation capacity addition, transmission capex is expected to be robust in the remaining 12th and 13th Plan periods. Skipper has a distinct competitive edge in costs of about 3-4% over peers, primarily due to its location advantage (proximity to the steel belt) as also wages (lower in the Eastern region). Moreover, the transmission sector's predominant focus for tower additions in the East and North-Eastern India magnifies Skipper's advantages further. We expect domestic order inflows to grow at 29% CAGR over FY15-18E.
- **Exports – attractive and stable:** We believe that Skipper's strategic alliance agreement with a Latam TSO, signed in Oct-13, can be a gamechanger - it will supply 100% of the TSO's current, forecasted and future tower requirements for Peru, Chile and Colombia until FY17E-end. Based on our study of the market potential for those countries and consequently the TSO's expected capex, we believe that Skipper can maintain export order inflow, also intermittently enhanced by orders from other countries. However, in the light of this being the first significant export relationship and therefore the associated uncertainty, our estimates reflect a flat lining of the export order book, and thus leave possible upsides.
- **PVC products – strong growth to sustain:** Skipper has gained a 10% market share in PVC pipes in the Eastern region. With capacity addition in the West, Skipper could show strong growth in PVC products, with respectable profitability by virtue of following an asset-light model. As per management interaction, the company is targeting to achieve 100% CAGR in PVC products over FY15-18E. Considering competitive pressures, particularly in the Western region, we have estimated PVC products to grow at 35-40% CAGR in FY15-18E, off a low base, which will nevertheless increase the salience of this business that is currently small.
- **Valuation and risks:** We expect robust growth in Skipper's earnings due to strong sales growth and margin expansion, led by improving operating leverage. Skipper's return ratios are considerably better than peers, also helped by the fact that the company accords relatively lower importance to the low-margin EPC business. With continued focus on the product business in T&D, we expect Skipper to sustain return ratios at levels higher than peers. We initiate with a BUY and TP of Rs230 (15x PER-Sept-17E). Because of dependence on the power transmission sector, slower-than-expected capex in the transmission sector can be a major risk.

Target Price	Rs230
CMP*	Rs151
Upside	*52%*

Price Performance (%)*

	1M	6M	1Yr
SKIPPER IN	*(1.7)*	*(8.7)*	*21.8*
Nifty	*(3.8)*	*(5.1)*	*(8.7)*

Key Data	
Bloomberg Code	SKIPPER IN
Curr Shares O/S (mn)	102.3
Diluted Shares O/S(mn)	102.3
Mkt Cap (Rs bn/USDmn)	15.4/230.4
52 Wk H / L (Rs)	200/97
5 Year H / L (Rs)	200/32
Daily Vol. (3M NSE Avg.)	48716

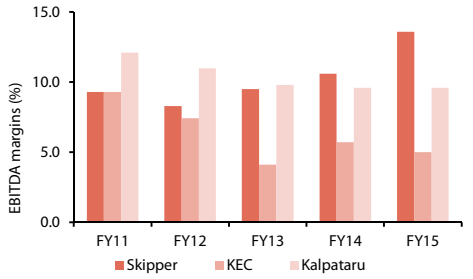
**as on 9 December 2015; Source: Bloomberg, Centrum Research*

Shareholding pattern *(%)**

	Sep-15	Jun-15	Mar-15	Dec-14
Promoter	*72.4*	*72.4*	*72.4*	*72.4*
FIIs	*0.0*	*0.0*	*0.0*	*0.0*
DIIs	*0.02*	*0.0*	*0.0*	*0.0*
Others	*27.6*	*27.6*	*27.6*	*27.6*

*Source: BSE, *as on 9 December 2015*

EBITDA Margins – advantage over peers



Source: Company, Centrum Research.

Read the inside pages for:

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Y/E Mar (Rs mn)	Rev.	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	FDEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	10,415	*15.7*	1,102	*10.6*	269	*43.8*	2.7	*12.5*	*14.5*	52.2	16.5
FY15*	12,702	*22.1*	1,726	*13.6*	594	*120.6*	5.8	*22.5*	*21.6*	24.5	10.3
FY16E	16,171	*27.3*	2,216	*13.7*	925	*55.8*	9.0	*27.2*	*25.1*	16.7	8.8
FY17E	20,850	*28.9*	2,985	*14.3*	1,409	*52.3*	13.8	*31.8*	*29.1*	11.0	6.5
FY18E	24,021	*15.2*	3,532	*14.7*	1,750	*24.2*	17.1	*29.9*	*29.7*	8.8	5.4

*Source: Company, Centrum Research Estimates; * Excluding forex gain*

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Engineering products – Backward integration and logistics offer cost advantage

Skipper is a leading manufacturer of Transmission and Distribution structures (Towers & Poles) in its Engineering product segment. Transmission towers contribute majorly to the Engineering product segment. Transmission line towers/engineering products account for 89% of net sales, 88% of EBIT and 93% of capital employed at the company. Skipper now also caters to monopoles requirement, though currently at an insignificant level in engineering product sales.

One of the most backward integrated facilities

Skipper has three manufacturing plants located in Uluberia, Howrah (eastern part of India), with total installed capacity of 175,000T per annum.

- One of the world's largest Integrated Transmission Tower manufacturing companies, with Angle Rolling, Tower, Accessories & Fastener manufacturing and EPC line construction.
- Manufacturing process of almost 75% of products uses Automated CNC lines imported from leading global machine suppliers.
- Meets 90% of raw material requirements – hot-rolled strip and structures – through captive sources.

Backward integration plays key role in cost saving

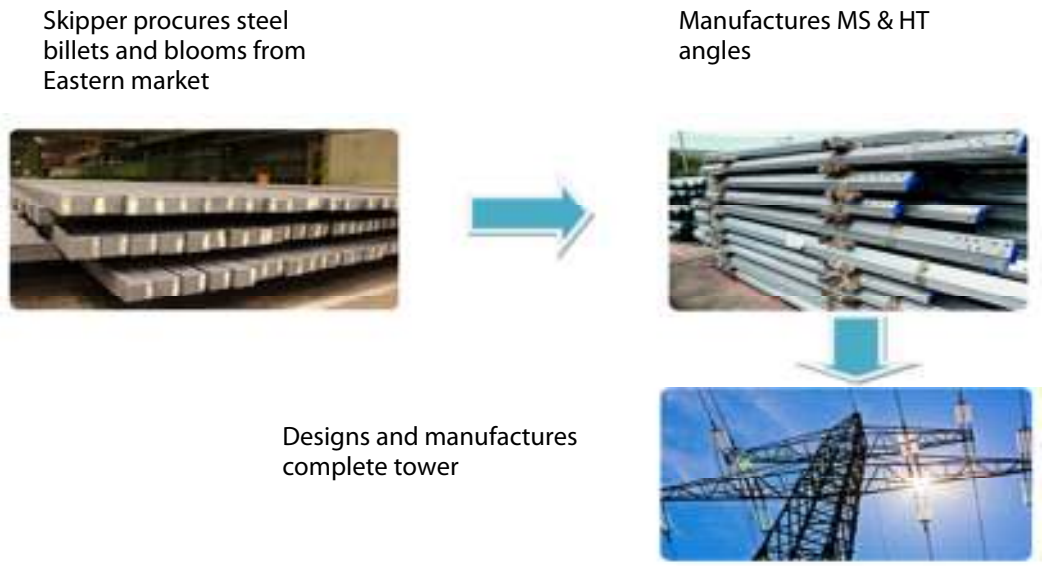
Skipper is the only company of this size in power transmission sector in India to have complete value chain control, from angles to tower production to fasteners to EPC, resulting in about 80% cost control on any tower line. The company has achieved backward integration through angle rolling, which is the main raw material for tower production and is horizontally integrated with the manufacturing of fasteners and accessories for towers.

Backward integration enables Skipper to achieve the following:

- Retains re-roller conversion margins, which competition needs to forego as they outsource angles.
- Provides better control over supply chain management. With own captive rolling unit, Skipper can customise the exact length requirement helping it to reduce wastage and scrap generation.
- Single plant location provides scale advantage in operations, higher negotiation power and logistical advantage.

Backward integration by manufacturing Angles, accessories & fasteners helps Skipper to save 2-3% on input material procurement versus peers.

Exhibit 1: Process layout of Skipper



Source: Company, Centrum Research

Exhibit 2: Process comparison

Process	Stages	KEC	Kalpataru	Skipper	Comment
	Procures steel billets and bloom	NA	NA	Plant is strategically located in Eastern India	
	Manufactures MS and HT angles, towers, fasteners, accessories	Procures from vendors. If plant location is far from mines, it is not feasible to have roller or angle mills to manufacture parts		100% backward integrated, able to meet 90% of raw material requirements, i.e., hot-rolled strip and structures through captive sources	**Conversion cost for steel billets to Angle or Structures is ~Rs6,000-7,000 per tonne. With 100% integration, Skipper's procurement cost of Angle or Structure is lower by Rs500-1,000 per tonne, than peers**
	Designs and manufactures complete towers	Yes	Yes	Yes	
	EPC projects	Yes – FY15 sales -71%	Yes – FY15 Sales – 64%	Yes – FY15 sales -6%	Skipper has started catering EPC projects, but the revenue earned is smaller than peers.

Source: Company, Centrum Research

With backward integration, Skipper has a competitive edge over peers. In backward integration, by converting steel billets and blooms into angles and rollers, Skipper has an advantage of Rs500-1,000 per tonne on every angle it manufactures. In addition, with higher focus on product business, Skipper is likely to sustain margins and backward integration benefits at current levels.

Backward integration – not a feasible option for peers

As per our analysis, there are two major reasons for peers to avoid backward integration in tower manufacturing.

First reason – Not feasible to have angle and roller mills far from steel supplier

Second reason – Marginal benefit in terms of total sales for peers

For companies like Kalpataru and KEC, contribution from product business is comparatively lower than that for Skipper.

Exhibit 3: Transmission tower sales are comparatively lower in peers as compared to total sales

	Product sales - Transmission towers % of T&D sales
KEC	*25*
Kalpataru	*34*
Skipper	***100***

Source: Centrum Research

Backward integration by incurring capex up to Rs3-4bn for angle and roller mills to set up capacity up to 200,000T equivalent to Skipper is not feasible for players like KEC and Kalpataru.

Conversion benefit from steel billets to angles and rollers is ~Rs500-1,000 per tonne, i.e. 2-3% of procurement cost of ~Rs26,000-27,000 per tonne.

In tower structures, KEC and Kalpataru may get 2-3% benefit in procurement cost like Skipper by backward integration.

But, considering their total scope of work in T&D, it translates to marginal benefit on T&D sales.

Historically, KEC and Kalpataru has shown higher preference for total transmission line orders versus sole transmission tower orders

Exhibit 4: Backward integration in peers will result in marginal improvement

Particulars		**KEC**	**Kalpataru**	**Skipper**
	Volumes sold in FY15 (Tonnes)	~190,000	~175,000	~118,000
	Transmission towers sales in FY15 in Rs mn	19,000	17,500	11,768
Backward Integration	Cost saved due to Rs500 per tonne pa saved (Rs mn)	95	88	60
	Cost saved due to Rs1,000 per tonne pa saved (Rs mn)	190	175	120
	Total T&D Sales in FY15 (Rs mn)	64,840	40,228	12,231
In terms of % of T&D sales	For Rs500 per tonne saved	*0.1*	*0.2*	*0.5*
	For Rs1,000 per tonne saved	*0.3*	*0.4*	*1.0*
	Capex cost to install 200,000T - Angle mill	3,000	3,000	Nil*

*Source: Centrum Research, * - have existing capacity of 215,000T*

Cost saving of ~2-3% on procurement due to backward integration will slightly improve consol margins for KEC and Kalpataru at the cost of higher capital employed.

Hence, we believe peers like KEC and Kalpataru with higher focus on EPC business will concentrate more on addition of tower manufacturing capacity than backward integration in the value chain.

Hence, we do not expect peers to incur capex for backward integration to mitigate Skipper's cost advantage benefit. Thus, Skipper will continue to enjoy 2-3% saving on procurement cost, led by backward integration, cost optimisation and scrap management.

Logistics cost – an edge over peers

Price difference in steel billets between East and West regions of India is at least Rs3,000 per tonne. The East region is India's steel hub, with most large steel production units located in this region. The price difference is largely based on logistics and scalability. Hence, due to lower logistics cost for material transfer, Skipper has an edge over peers in terms of ~3-5% cost savings in raw material procurement.

Exhibit 5: Steel billet prices trend – region-wise

Rs per tonne	Steel billet prices			*Logistic cost % per tonne*
	In East	In West	Difference	
Mar-14	30,800	33,000	2,200	*7.1*
Jun-14	33,600	34,750	1,150	*3.4*
Sep-14	31,300	32,300	1,000	*3.2*
Dec-14	30,200	31,200	1,000	*3.3*
Mar-15	28,100	29,000	900	*3.2*
Jun-15	25,400	28,500	3,100	*12.2*
Sept-15	25,000	27,200	2,200	*8.8*

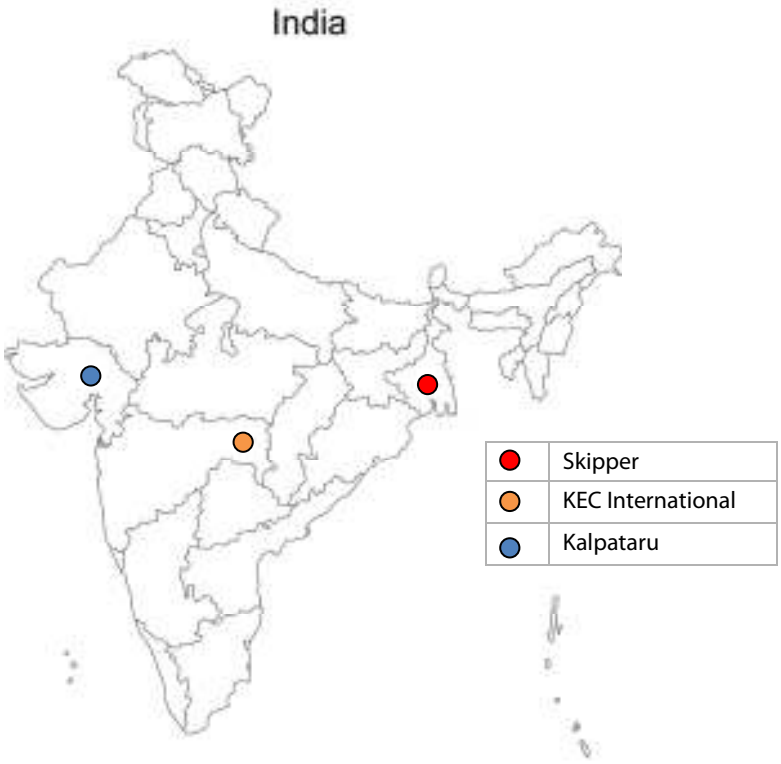
Source: Steel mint.com, Centrum Research

As per Indian railways, train freight for the transport of steel structures or billets is ~Rs3,500 per tonne from the East to West region.

Owing to its location in Eastern India, Skipper has the lowest-cost access to the major raw material – steel billets – which it mainly procures from Durgapur steel plant (located less than 200km away).

Skipper has a strategic advantage over peers due to the location of its manufacturing facilities in Eastern India, and as depicted in the chart, the company will continue to enjoy this advantage.

Exhibit 6: Capacity location of top three players



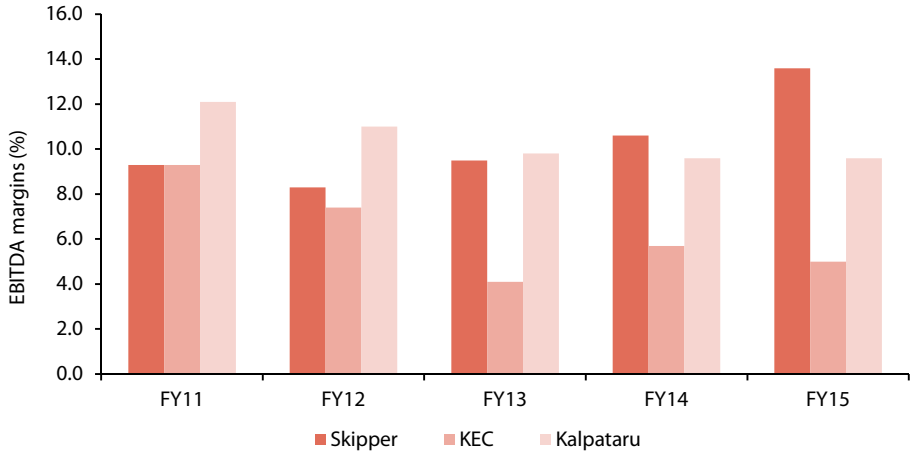
Source: Centrum Research

With strategically better placed for material procurement and backward integration, cost saving of 3-4% will allow Skipper to compete with top peers like Kalpataru and KEC. With upcoming T&D capex in North and North east region, Skipper will be major beneficiary due to cost advantage over peers.

Better profitability due to logistics advantage and backward integration

With backward integration and logistics advantage, Skipper has achieved 3-4% cost saving over peers. Lower focus on EPC business further has helped the company to achieve better profitability than peers. In FY11-14, cost advantage was not visible in numbers and profitability was at par with peers due to impact of loss making pipe business in engineering products. With divestment of GI pipe business, profitability is witnessing 3-4% improvement in FY15 and is expected to sustain in future.

Exhibit 7: EBITDA Margins – advantage over peers

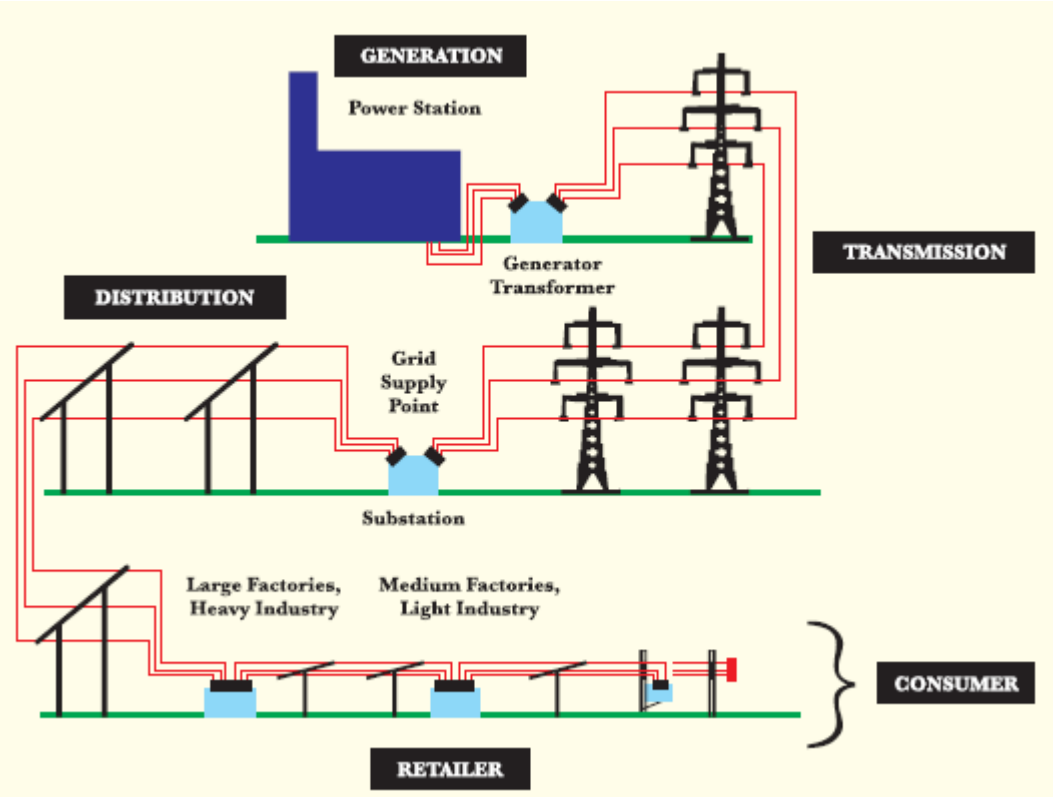


Source: Bloomberg, Company, Centrum Research

Enviable combo of positive sector outlook and cost advantage

India's Transmission sector – robust growth outlook

Exhibit 8: Schematic Diagram of Power generation to power distribution



Source: Centrum Research

A major reason for power deficit in India is shortage in transmission capacity. In India, power transmission is a bigger challenge than power generation. While the North-East-West regions produce surplus power to total regional demand during peak hours, the southern region still faces peak time power shortage despite being linked with the national grid. Resource-rich states such as Chhattisgarh, which has high installed generation capacity, are also unable to evacuate the excess power. The shortage of transmission networks has led to underutilisation of generation capacity even within a state.

In addition to traditional sources of energy, India has intensified its focus on renewable energy as a solution to the growing energy demand and environmental concerns. Subsequently, installed capacity for this alternative energy source has been ramped up, with active participation from both government and private players. This necessitates synchronisation of electricity produced from renewable sources by setting up transmission infrastructure that connects with the national grid.

In the 11th five-year Plan Period (2007-12), India added power generation capacity at 8.7% CAGR compared to only 5.4% CAGR in transmission line, reflecting the disparity in capacity addition. Acknowledging the disproportion, higher capacity addition was proposed for the transmission sector in the 12th five-year Plan (2012-17) to match with higher generation capacity. Dedicated funds have also been allocated for setting up infrastructure for the transmission of electricity from renewable sources to the national grid.

The present generation installed capacity in India as of the end of Sept-15 is about 279GW, including renewable generation resources of about 37GW. During the 12th Plan, about 61GW of generation capacity was added. Moreover, about 89GW of generation capacity may be added in the 12th Plan and about 100GW in the 13th Plan. The total installed capacity by the end of 13th Plan is expected to be 469GW, which includes 65GW of renewable capacity. The table below presents the generation scenario that may be available by the end of the 13th Plan.

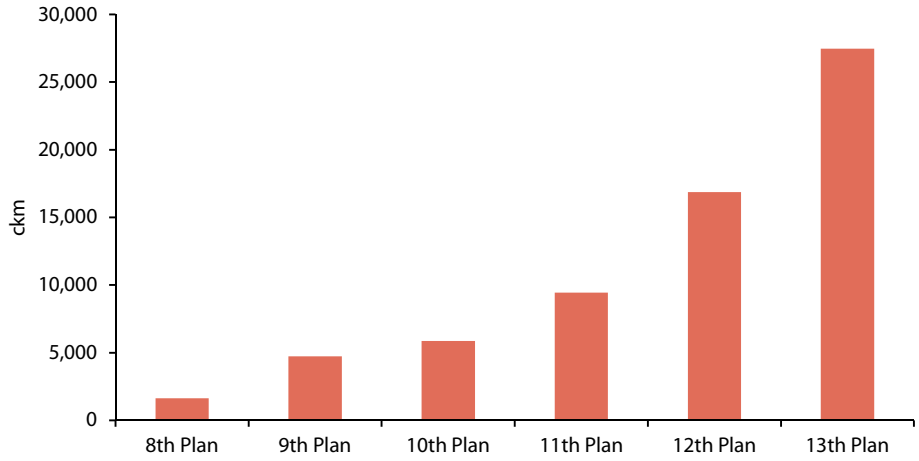
Exhibit 9: GoI's power generation capacity addition plans

in MW	A	B	C	Total A+B+C
	Up to Sept-15	Balance in 12th Plan	Addition in 13th Plan	
NR	73,353	11,963	16,890	102,206
ER	33,417	13,202	31,195	77,814
NER	3,513	2,908	8,202	14,623
WR	100,888	27,668	20,262	148,818
SR	67,512	28,370	23,076	118,958
Total	**278,683**	**84,111**	**99,625**	**462,419**

Source: Power ministry, Centrum Research

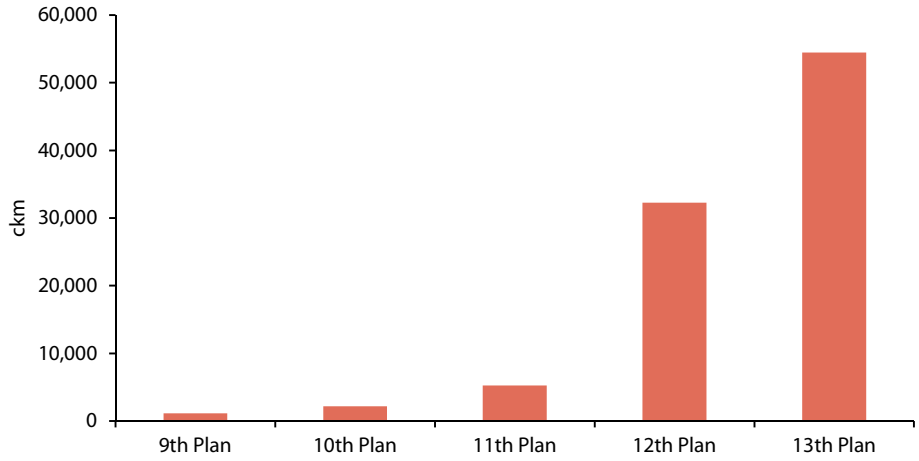
As per studies by government agencies, robust transmission network addition across all segments is planned so as to achieve grid stability.

Exhibit 10: HVDC Bipoles plans for 12th and 13th plans



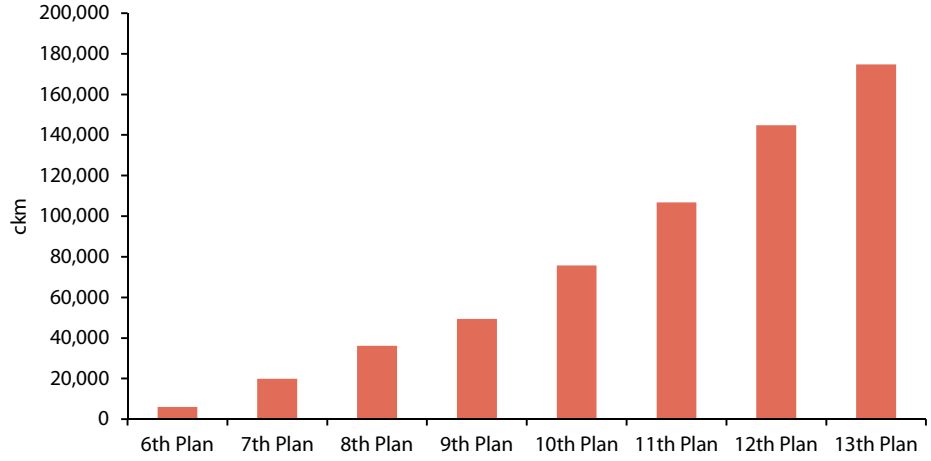
Source: Power ministry, Centrum Research

Exhibit 11: Plans for 765kV transmission for 12th and 13th plans



Source: Power ministry, Centrum Research

Exhibit 12: Plans for 400kV transmission for 12th and 13th plans

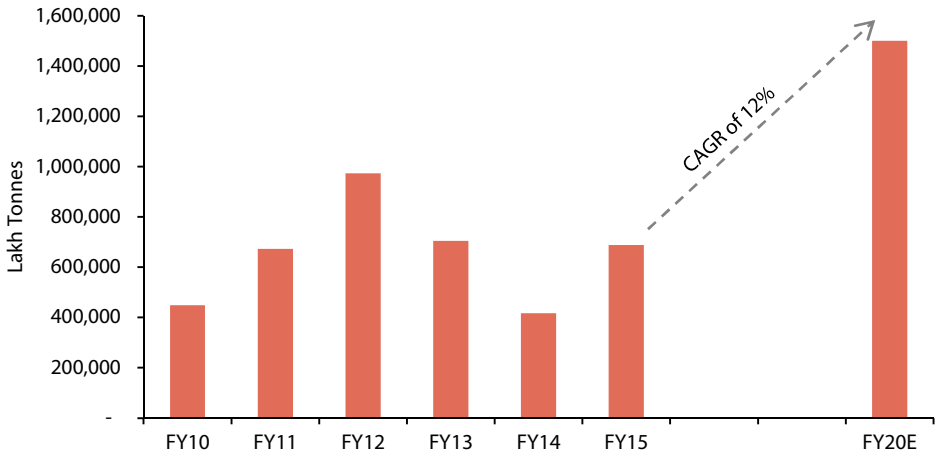


Source: Power ministry, Centrum Research

As estimated above, during the 13th Plan Period, there is a need for about 62,800 circuit kilometres (ckm) of transmission lines, 15,000MW of HVDC terminal capacity and 128,000MVA of transformation capacity of the 400kV and above-voltage level transmission systems. A majority of this system would be implemented as Inter-State transmission system (ISTS) and some part as state transmission system. Based on the current cost of the construction of transmission systems being carried out by PGCIL, the total estimated fund requirement for the above indicated system (400kV) is Rs1,600bn and about Rs1,000bn for 220kV and below systems, most of which would be as state transmission systems. Accordingly, total fund requirement for 13th Plan is estimated at Rs2,600bn.

Of the required Rs2,600bn capex, ~40% will be dedicated towards transmission towers, i.e., ~Rs1,000bn across India. In order to maintain its market share, PGCIL will have to undertake capex of Rs640bn. Transmission towers account for ~40% of total transmission capex. This translates into transmission tower requirement of ~14,00,000T per annum for PGCIL over the next five years. Considering PGCIL to achieve this run rate gradually over the next five years from the current tower addition of ~600,000T, this translates to a potential growth at ~12% CAGR in transmission tower additions over FY15-22E.

Exhibit 13: Transmission tower additions per annum



Source: Power ministry, Centrum Research

T&D capex - strong potential for Skipper

Capable of undertaking projects up to 800kV

Skipper is capable of handling projects with the capacity of 400kV and above. So far, the company has installed towers of over 400,000 tonnes. High-voltage lines (400kV and above) account for 100% of the company's projects.

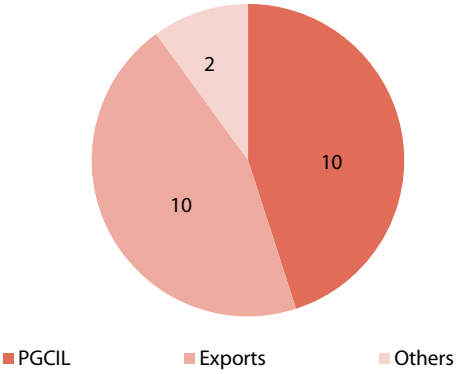
Pre-qualified for key clients

- **Domestic:** Skipper's domestic clients include Power Grid Corporation India (PGCIL), India's central transmission utility and State Transmission Utilities (STUs).
- **Exports:** Skipper has signed an agreement with leading TSO in Latin America.

Large orders in hand offer two-year revenue visibility

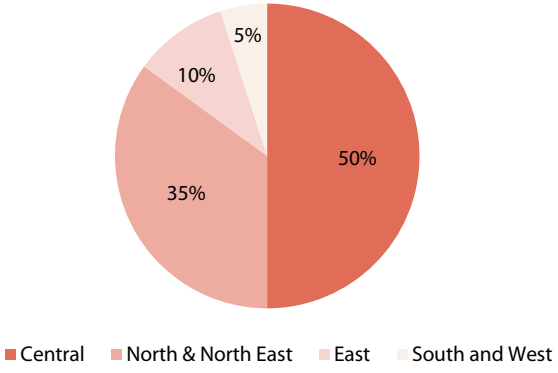
Current order book stands at Rs22bn, 45% of which is from PGCIL, another 45% from exports and 10% from other entities.

Exhibit 14: Current order book stands at Rs22bn



Source: Company, Centrum Research

Exhibit 15: Region-wise classification of orders in India



Source: Company, Centrum Research

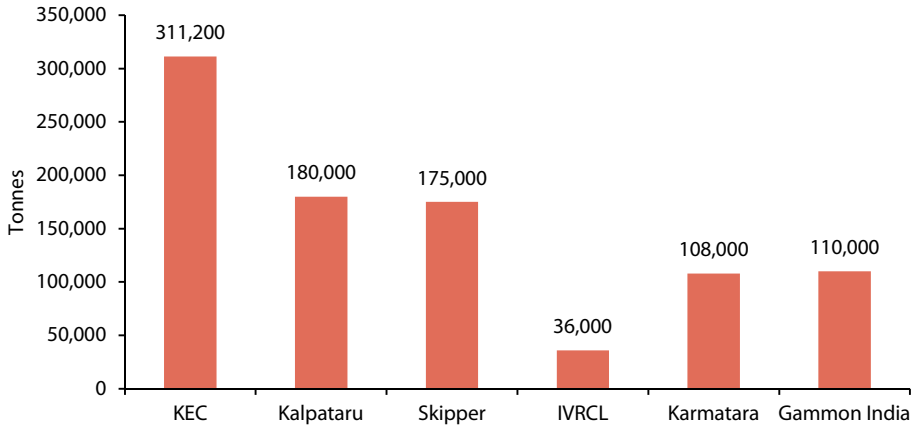
Exhibit 16: Installed capacity for transmission towers

Installed capacities in Tonnes	Uluberia, Howrah	Unit 1	BCTL	Total
Transmission towers (Incld. Poles)	70,000	69,000	36,000	175,000
Hot Rolled Angles	215,000			215,000
Total	285,000	69,000	36,000	390,000

Source: Company, Centrum Research

Skipper's manufacturing capacity is among the top three in India and top 10 globally. With backward integration in rolling mill and angle mill, Skipper has a competitive edge over peers. Though KEC has the highest capacity, it generates lower margins (6-7%) due to direct procurement of angles and higher EPC business, in addition to location disadvantage.

Exhibit 17: Installed capacities of Transmission towers – player-wise

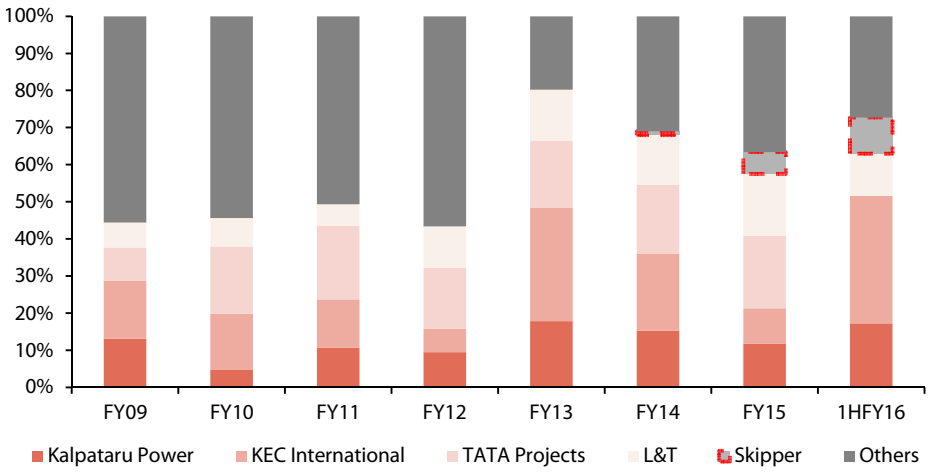


Source: Company, Centrum Research

With backward integration and logistics cost savings, Skipper enjoys better margins (approximately 300-400bps) than peers.

In FY09, Skipper started with transmission tower business. In order to attain prequalification for Powergrid orders, Skipper started with small orders. Powergrid order book grew at a robust ~35% in FY11-15. Skipper's market share is improving gradually due to cost advantage. We believe that Skipper's market share will continue to increase due to competitive edge over peers.

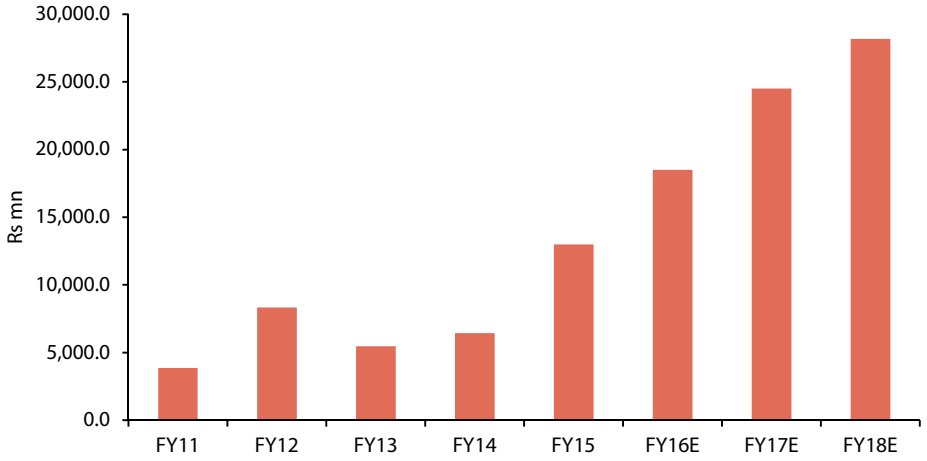
Exhibit 18: Market share in total transmission line capex by PowerGrid



Source: Powergrid, Company, Centrum Research

Skipper is focused on manufacturing transmission towers of 400kV and above. Considering the total potential available, Skipper will focus on a ~Rs1,000bn market and a majority of ISTS capex. Though apt transmission tower capacities are available to cater to this opportunity, Skipper with its strategic advantage of location and lower manufacturing cost has a high probability for procuring order inflows at ~20% CAGR over the next five years. With relatively new entry and low base, Skipper could show better growth (at ~30-40%) than peers over the next three years in the domestic market.

Exhibit 19: We expect order inflows in domestic market to grow at 29% CAGR in FY15-18E.



Source: Centrum Research estimate

Freight cost to benefit Skipper in upcoming T&D capex in N & NE regions

Grid connectivity plans by GoI

Generation capacity addition will not ensure lower power deficit across India. To achieve grid stabilisation and reduce deficits, India requires transmission highway corridors as suggested by GoI (Exhibit 25). Remaining 12th plan and 13th plan will mostly see skewed transmission capacity addition in North & North Eastern region.

Exhibit 20: Grid connectivity planned by GoI

Source: Power ministry, Centrum Research

As depicted in the image above, transmission network capex is largely concentrated in Eastern and North Eastern regions. With the cost advantage due to strategic location near mines in Eastern India, Skipper will be a major beneficiary of this capex. In addition, freight cost will play major role in North and North Eastern orders for finished goods transport. Hence, we expect Skipper to procure higher orders and show incremental growth in market share.

With higher thrust on transmission capex by GoI, North, North East and Eastern regions are expected to witness larger part of planned capex over the next five years. As per our analysis, Skipper will have a strategic advantage over peers for the planned capex in these regions due to freight cost required for finished goods transportation. As shown in Exhibit 12, Skipper will have additional 3-4% benefit over peers in projects from these regions, whereas it will be at parity for projects in West and Southern India.

Example

- Transmission line project of 200km
- Tower structures of 20,000T are required for a 200km line construction
- Two towers are installed per kilometre
- Average realisations at ~Rs0.1mn per tonne
- Implied order of Rs2,000mn
- Skipper has a cost advantage of 3-4% over Kalpataru and KEC due to backward integration and location advantage
- The only variable is logistics cost

Exhibit 21: Freight cost comparison of major players

Rs mn	Freight cost through train for project			*Freight cost - % of total project cost*		
	Skipper	**Kalpataru**	**KEC**	***Skipper***	***Kalpataru***	***KEC***
East region	9	76	66	*0.5*	*3.8*	*3.3*
North region	64	64	60	*3.2*	*3.2*	*3.0*
North East region	15	70	58	*0.8*	*3.5*	*2.9*
West region	72	9	14	*3.6*	*0.5*	*0.7*
South region	58	56	50	*2.9*	*2.7*	*2.5*

Source: Indian Railways, Centrum Research

The areas highlighted in grey depict that Kalpataru and KEC have a disadvantage of 3-4% in addition to higher cost of 3-4% compared to Skipper's procurement cost. Therefore, peers from West India will incur additional ~7% cost to execute orders in Eastern and North-Eastern regions.

Hence, Skipper will have a cost advantage in projects lined up in the North or North Eastern region. In the West and South, Skipper will be at par with peers due to higher logistics cost. These factors offer Skipper a strategic advantage over peers for targeting projects in any part of the country.

Thus, Skipper has a higher probability of order procurement than peers in North and North Eastern regions. With capex growth inclined towards North and North Eastern regions, we believe Skipper is likely to outperform peers in order inflow growth.

Exports – attractive and stable

In exports, Skipper has signed an agreement with the leading TSO. Skipper was selected from among 20 players for this agreement based on its competitive advantage. As per our analysis, Skipper has a potentially huge opportunity in transmission towers over the next 3-5 years in Latin America. Recently, Skipper received orders worth Rs11.5bn through the export market. The majority of the order (more than Rs10bn) is from Latin America.

TSO provides a complete service portfolio through business operations: Electric Energy Transmission to market agents; connecting generators, grid operators, regional transmission operators and large consumers to the STN; project construction for third parties; ancillary services related to maintenance and electricity; and energy studies.

TSO and its subsidiaries are a group of top international electric energy transmission companies in Latin America, with 41,650ckm of high-voltage and 77,710MVA of transformation capacity. Its electric grid offers high availability, reliability and quality.

Exhibit 22: Currently, TSO has following electric power infrastructure under service

Countries	Transmission in ckm
Colombia	12,122
Bolivia	588
Brazil	10,522
Chile	1,874
Peru	9,418
Total	**34,524**

Source: Company, Centrum Research

With a larger operating base, TSO with whom Skipper has signed an agreement is a stable operator and has shown consistent growth.

TSO signed a strategic alliance agreement with Skipper in Oct-13 for the purchase of 100% of TSO's current, forecasted and future Tower requirements in Peru, Chile and Colombia from Skipper until FY17E end. Each order from TSO will have 14% EBITDA margin and price variation clause to maintain material cost at permissible levels.

Exhibit 23: Initial quantity estimates are as below

Countries	Potential in MT
Peru	30,836
Chile	61,472
Colombia	12,400
Total (MT)	104,709

Source: Company, Centrum Research

Exhibit 24: Current electric power infrastructure projects under construction

Countries	Infrastructure under construction		
	Transmission in ckm	in US$ mn	in Rs mn
Colombia	1,356	970	64,020
Chile	1,874	1,000	66,000
Peru	1,607	760	50,160
Brazil	838	130	8,580
Total	**5,675**	**2,860**	**188,760**

Source: Company, Centrum Research

Considering 40% potential in tower construction orders, Skipper has the potential of Rs75,000mn order inflows over the next 3-5 years.

We believe that Skipper will continue to receive export orders consistently. Taking a conservative stance and considering the uncertainty in international markets, we have factored in flattish growth in export orders over FY15-18E.

Apart from this TSO, Skipper is striving to add tower construction orders from other regions like Nigeria, Africa and Middle East. We expect current export order inflow estimate to be very conservative and which may be revised upward with future inflow of orders.

Key advantage of Skipper versus local and Asian competitors in Latin America

- Difference in Asian and US steel prices has remained constant at ~US$100 per tonne.

Exhibit 25: Steel price differences between US and Asian countries

	Steel CIS Export $/tonne Black Sea	US Mkt - Steel Midwest mkt avg Prices - USD/tonne	Difference in prices
Aug-13	525	637	112
Nov-13	575	678	103
Feb-14	530	640	110
May-14	537	686	149
Aug-14	543	678	135
Nov-14	475	641	166
Feb-15	390	455	65
May-15	365	432	67
Aug-15	325	454	129
Nov-15	268	364	97

Source: Bloomberg, Centrum Research

- Conversion cost is higher by ~US$30 in the US than Asian countries.
- Despite deduction of freight cost of ~US$20 per tonne, Asian companies have an advantage of ~US$110 per tonne in steel products than local manufacturers.

Hence, Asian companies will always have a competitive edge over local US companies.

- Chinese manufacturers are not preferred for long-term orders; hence, Indian companies have a competitive edge over peer countries.
- Within India, cost saving of 3-4% will always be an advantage for Skipper over peers in Transmission tower supply.
- Majority of the peers operate in US transmission capex through their subsidiaries located in the US. Hence, peers are less competitive due to their far off location.

Skipper was preferred over 20 competitors in export orders because of following reasons:

- With limited scope of work, only product supply order, i.e., tower structures, was received. Kalpataru and KEC were not keen to bid for these orders, as these companies prefer orders with EPC solutions.
- Chinese supplier was L1 in the process. Chinese players are not preferred for large orders with higher execution cycle. Hence, Skipper was preferred based on design capabilities and plant scale.

Usually, TSO prefers to maintain long-term relationship with vendors. Hence, Skipper is confident of agreement renewal by TSO at the end of its tenure. With its current order and marketing efforts, Skipper has built a good brand image in Latin America, and hence, is confident of sustaining order book.

Hedging policy – to insulate export order from currency volatility

As per our analysis, margins for any export order ranges between 14-15 %. Skipper follows a unique hedging policy that allows him to enhance his margins further on any export order.

At the time of receipt of any export order, the company takes forward cover to the extend of the order received. This forward cover is renewed every year till the order gets completed.

Skipper will always tend to gain in this process though there might be mismatch in cashflows which will be temporary in nature, it will only arise in case of extreme volatility in currency.

Hedging will help the company to stabilize currency effect on realizations upon completion of the order execution.

Skipper doesn't have any import obligations. By complete hedging, Skipper ensures stability against currency variance on export orders.

Example

- In FY16, Skipper receives an order inflow **(OI)** of US$100mn in exports (at INR/US$ - 66).
- Skipper has hedged full order in dollar denomination with one-year forward contract, and the order is executable over the next three years.
- Average premium received on forward cover: ~7%
- Forward contract price: INR/US$ 70.6 at the time of receipt of order
- Following three scenarios can arise in hedging

Exhibit 26: Worst Case – Rupee depreciates by 10% every year

Rs mn	% of execution	INR/US$ - A	Forward Contract price at the start -B	Forward premium received in INR/US$	Forex (Loss)/Gain = (B-A)*OI	Sales at INR/US$ -66	Sales realized at spot	Currency effect on realization	Net (Loss)/gain
Year 1	20%	72.6	70.6	4.6	(70.6-72.6)*100 = (198)	20*66=1,320	20*72.6=1,452	132	(68)
Year 2	50%	79.9	77.7	5.1	(77.7-79.9)*80 = (174)	50*66=3,300	50*79.9=3,993	693	519
Year 3	30%	87.8	85.5	5.6	(85.5-87.8)*30 = (72)	30*66=1,980	30*87.8=2,635	655	584
Total					(444)	6,600	8,080	1,480	**1,034**
					Net gain of Rs 1,034				

Exhibit 27: Base Case – Rupee stays at 66 for execution period

Rs mn	% of execution	INR/US$ - A	Forward Contract price at the start -B	Forward premium received in INR/US$	Forex (Loss)/Gain = (B-A)*OI	Sales at INR/US$ -66	Sales realized at spot	Currency effect on realization	Net (Loss)/gain
Year 1	20%	66.0	70.6	4.6	(70.6-66)*100 = 462	20*66=1,320	20*66=1,320	-	462
Year 2	50%	66.0	70.6	4.6	(70.6-66)*80 =370	50*66=3,300	50*66=3,300	-	370
Year 3	30%	66.0	70.6	4.6	(70.6-66)*30 =139	30*66=1,980	30*66=1,980	-	139
Total					970	6,600	6,600	-	**970**
					Net gain of Rs 970				

Exhibit 28: Best Case – Rupee appreciates by 10% every year

Rs mn	% of execution	INR/US$ - A	Forward Contract price at the start -B	Forward premium received in INR/US$	Forex (Loss)/Gain = (B-A)*OI	Sales at INR/US$ -66	Sales realized at spot	Currency effect on realization	Net (Loss)/gain
Year 1	20%	59.4	70.6	4.6	(70.6-59.4)*100 =1,122	20*66=1,320	20*59.4=1,188	(132)	990
Year 2	50%	53.5	63.6	4.2	(63.6-53.5)*80 =808	50*66=3,300	50*53.5=2,673	(627)	181
Year 3	30%	48.1	57.2	3.7	(57.2-48.1)*30=273	30*66=1,980	30*48.1=1,443	(537)	(264)
Total					2,202	6,600	5,304	(1,296)	**907**
					Net gain of Rs 907				

Source: Centrum Research Estimates

PVC products – strong growth to sustain

Skipper's PVC pipe segment captured 10% of Eastern India's market since it ventured into water transmission infrastructure (pipe) business in 2009. Revenue contribution rose to ~7% in FY15 from 4% in FY12. The company has a wide network of ~500 channel partners, and includes products such as PVC pipes and fittings. The company currently has a capacity of 20,000MTPA in the PVC division, with revenues of ~Rs897mn for FY15 and realisation of ~Rs1 lakh per tonne. It is ranked zonal second and is a coveted member of a small club of quality manufacturers.

The company focuses on water distribution, with 60% of the overall market dedicated towards agriculture and the remaining 40% towards plumbing. Of late, PVC pipes have been replacing steel pipes. Supreme, Finolex, Jain Irrigation and Astral Poly are key players in this industry. Skipper has collaborated with global giants in PVC for advanced plumbing solutions (Sekisui of Japan for CPVC pipes and WAVIN of the Netherlands). This collaboration would strengthen the company's brand positioning and help match prices with leaders in the PVC sector. It expects to expand its PVC capacity by 5x to 100,000MTPA by FY18E by adopting a land lease model, which allows setting up the plant within four months as against 18-24 months for a greenfield project and at 40% of the cost incurred in a greenfield project, resulting in cost efficiency.

Low penetration in Indian water transportation industry offers huge scope

Less than 50% of the urban population in India has access to piped water and only 14% of the rural income is spent on agri inputs (including PVC pipes). Water utilities do not cover 25% of Indian population. The market for water transmission PVC pipes and pipe fittings is 18 lakh tonnes per annum and currently growing at 8-10% per annum. As per the Indian plumbing skills council, plumbing products industry in India is expected to grow 6% annually to USD8bn by 2016, offering huge growth potential to players like Skipper. The Indian PVC pipes and fittings market is projected to reach ~Rs240bn in FY19.

Despite being a relatively new entrant, Skipper has garnered around 10% market share of the PVC products business in Eastern India. Skipper's strong product portfolio of pipes, including CPVC pipes and SWR pipes, makes it a major player across rural agricultural and urban plumbing segments.

Industry Usage

- Plumbing
- Sewage
- Borewell
- Agriculture

Currently, Skipper caters majorly to the retail market. Over the next few years, Skipper plans to add 40% sales through projects and reduce retail sales to 60%.

Exhibit 29: Planned capacity additions

Plant location	Capacities (Tonnes per annum)	Commissioning timeline
Uluberia	15,000	Operational
Ahmedabad	10,000	Operational
Hyderabad	8,000	From Dec '15
Guwahati	6,000	From Dec '15
Sikandarabad	6,000	From Dec '15
Future plans	55,000	Planned in FY17/FY18E

Source: Company, Centrum Research

Revenue for this segment is expected to scale up to ~Rs1.9bn in FY16E from Rs1bn in FY15 (a 90% jump in revenues within a year).

Top four players dominate the PVC industry, controlling 75% of the organised market:

- Finolex Industries – 25% market share
- Astral Poly – 10% market share
- SIL – 30% market share
- Jain Irrigation – 10% market share

Exhibit 30: Plastic pipe market details

	Rs mn
Total size of plastic pipe markets	215,000
Plastic pipe Industry growth	12-15% CAGR
Organised/Unorganised market	60:40

Source: Company, Centrum Research

Skipper is a small player across India, with ~0.5% market share. Until now, Skipper has outperformed industry growth, with 100% growth versus 12% industry growth.

Exhibit 31: Most of the competitors are already in place with required capacity

	MT
Astral Polytech	102,371
Finolex Industries	250,000
SIL	300,000
Jain Irrigation	200,000

Source: Company, Centrum Research

Hence, Skipper will have a competitive advantage as it follows the asset light model for capacity expansion. Capacity addition at Rs8,500 per MT, much below the industry average of Rs20,000 per MT, will be a major competitive edge for the company.

Skipper's strategy to generate robust growth in PVC products

- Skipper plans to expand its PVC division by setting up manufacturing facilities in Western and Central India. With the asset light model, Skipper can enter new markets by offering higher incentives to ground support.
- Current dealer network in East India is at ~500 dealers. The company will focus on adding dealers and providing higher commissions than competitors to gain market share in new markets.
- Skipper has partnered with Japanese company Sekisui (a world's leading manufacturer of CPVC compound) for manufacturing premium quality CPVC pipes. The company has also tied-up with WAVIN, a Netherlands-based company (a world renowned plumbing technology company), for launching one of the world's most advanced plumbing systems in India.

With these strategies, Skipper hopes to become a pan-India brand in the PVC piping space in the near future.

The company foresees exponential growth in revenues from this segment. It expects to achieve ~14% EBITDA margins going forward (vis-à-vis 11% in FY15). To achieve this, the company will enter the lucrative CPVC market by adding CPVC pipes to its products basket; this will further strengthen its position in urban centres apart from the rural agriculture sector. The company plans to venture into diverse pipe applications to further enhance its market share.

Realisations are at healthy levels and at par with peers.

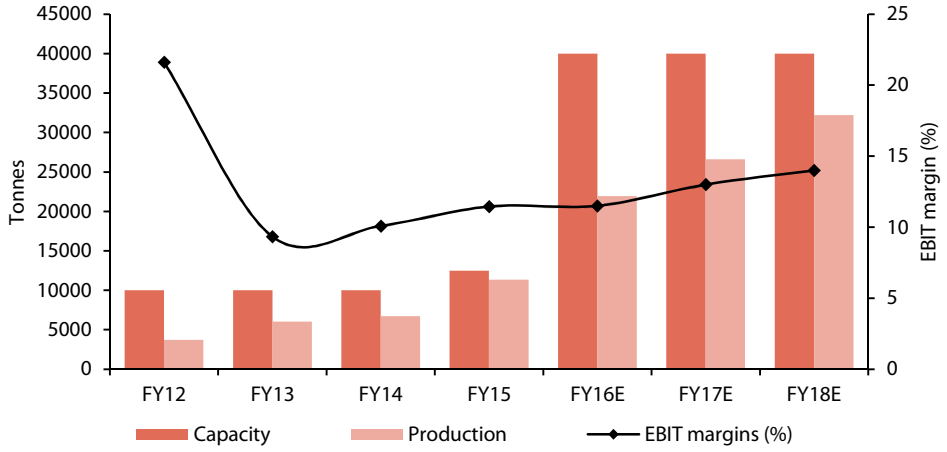
Exhibit 32: Realisations per tonne comparison

	Gross Realisations per tonne	
In Rs	**FY12**	**FY15**
Finolex Industries	75,000	95,000
Supreme Industries	85,000	100,000
Astral Poly	150,000	175,000
Skipper	92,577	91,975

Source: Company, Centrum Research

As strong growth is likely in PVC products, we expect margins to sustain and gradually improve with better utilisations.

Exhibit 33: EBIT margin likely to show expansion due to better operating leverage



Source: Company, Centrum Research

We have assumed 37% CAGR for FY15-18E versus the company's targeted growth of 100% CAGR over FY15-18E. Any surprise in growth potential will result in upward revision of estimates in the PVC product division.

Financial Analysis

Revenue growth to remain strong, with healthy order book

In engineering products, Skipper has witnessed strong growth over the last five years due to increasing order procurement in T&D sector. In PVC products, Skipper has successfully penetrated the eastern market and achieved ~10% market share by expanding dealer network. In EPC, Skipper has restricted itself to target profitable orders only and will continue with this strategy in future.

Exhibit 34: Revenue growth: Engineering products will show strong growth

Rs mn	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Engineering products	6,693	8,259	9,543	11,342	13,870	18,068	20,662
YoY (%)	*40.5*	*23.4*	*15.5*	*18.9*	22.3	30.3	14.4
PVC products	304	556	591	897	1,738	2,107	2,549
YoY (%)	*52.8*	*82.6*	*6.4*	*51.8*	93.7	21.2	21.0
EPC	406	173	270	462	563	676	811
YoY (%)	*553.3*	*(57.4)*	*55.9*	*71.2*	21.8	20.0	20.0
Total	**7,403**	**8,988**	**10,404**	**12,702**	**16,171**	**20,850**	**24,021**
YoY (%)	*47.3*	*21.4*	*15.7*	*22.1*	27.3	28.9	15.2

Source: Company, Centrum Research

- With robust order book in hand, sales are expected to stay robust over the next 2-3 years.
- Transmission towers will continue to drive sales growth.
- PVC products will show strong growth and increase in sales contribution due to higher penetration in new markets like Gujarat.

Exhibit 35: Order book trend: Order book to stay healthy

Rs mn	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Domestic	8,332	5,457	6,444	13,000	18,500	24,500	28,175
YoY (%)	*115.8*	*(34.5)*	*18.1*	*0.7*	*42.3*	*32.4*	*15.0*
Exports	-	-	6,469	11,500	11,500	11,500	11,500
YoY (%)			-	*77.8*	-	-	-
Total	**8,332**	**5,457**	**12,913**	**24,500**	**30,000**	**36,000**	**39,675**
YoY (%)	*115.8*	*(34.5)*	*136.6*	*89.7*	*22.4*	*20.0*	*10.2*

Source: Company, Centrum Research

- Skipper was chosen from among a global pool of 20 large manufacturers to enter into an exclusive alliance agreement by Latin America's largest TSO for these projects.
- With the expectation of robust T&D capex, domestic order inflows could grow, driven by cost advantage over peers.
- As per our analysis, order inflows will remain flattish in the export market as TSO has a large base to execute in Latin America.

Exhibit 36: EBITDA margins to sustain at current level due to higher contribution of exports

Rs mn	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Sales	7,403	9,003	10,415	12,702	16,171	20,850	24,021
YoY (%)	*47.3*	*21.6*	*15.7*	*22.0*	*27.3*	*28.9*	*15.2*
% of sales							
Material cost	*75.4*	*75.8*	*73.0*	*69.3*	*69.3*	*69.3*	*69.3*
Employee cost	*2.3*	*2.2*	*2.6*	*2.7*	*2.9*	*2.5*	*2.5*
Other expenses	*14.0*	*12.5*	*13.8*	*14.5*	*14.1*	*13.9*	*13.5*
EBITDA margins (%)	***8.3***	***9.5***	***10.6***	***13.6***	***13.7***	***14.3***	***14.7***

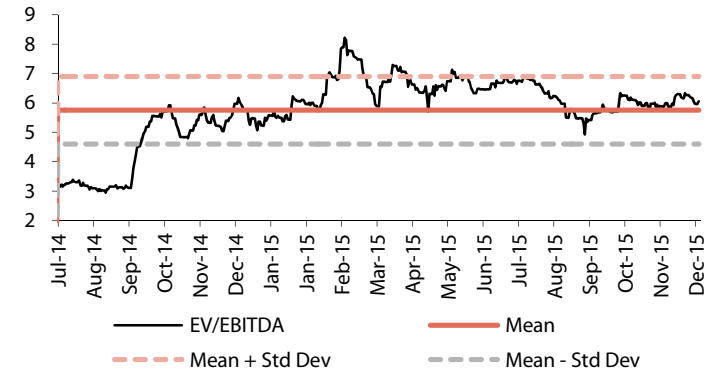
Source: Company, Centrum Research

- Material cost, as % of sales, could sustain at current levels as exports are expected to increase over the next three years.
- Better operating leverage will lead to margin expansion in FY17E and FY18E.

Valuations and Recommendations

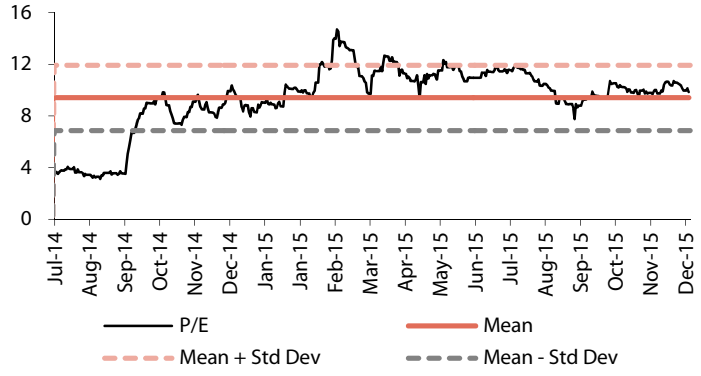
With robust growth in order inflows, we expect earnings to grow at 43% CAGR. As utilisations and operating leverage improve, we expect return ratios at healthy levels of ~28%. With competitive advantage of backward integration, Skipper could outperform peers in the transmission tower sector; hence, we assign 15x PER for Sept-17E earnings. We initiate Skipper, with BUY recommendation and a TP of Rs230 (15x PER-Sept 17E).

Exhibit 37: Rolling forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 38: Rolling forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 39: Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY15-FY17) %			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%		
		Rev	EBITDA	PAT	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Skipper	**15,409**	***28.1***	***31.5***	***54.1***	***13.6***	***13.7***	***14.3***	**24.5**	**16.7**	**11.0**	***10.3***	**8.8**	**6.5**	***22.5***	***27.2***	***31.8***	***0.9***	***0.8***	***0.8***
Kalpataru Power *	38,097	*11.8*	*16.5*	*26.0*	*9.9*	*10.6*	*10.7*	23.0	17.7	14.1	9.8	8.8	7.5	*8.2*	*9.1*	*10.4*	*0.7*	*0.9*	*1.0*
KEC International*	37,959	*10.5*	*20.5*	*33.9*	*6.8*	*7.7*	*8.1*	23.6	18.8	13.4	7.2	8.5	7.1	*12.8*	*14.2*	*17.3*	*1.1*	*0.8*	*1.0*

*Source: Companies, Centrum Research Estimates, * Bloomberg estimates*

Key risks

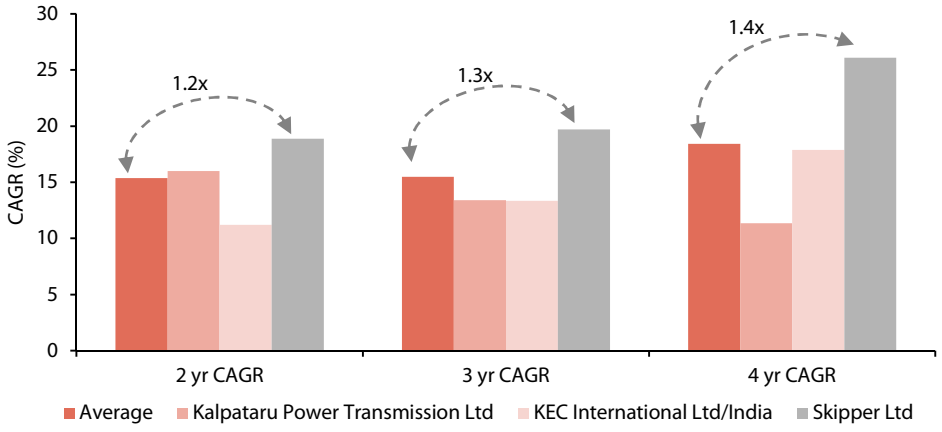
- Adverse currency movement may lead to forex loss due to its aggressive hedging policy
- Slower-than-expected T&D capex will lead to lower order inflow and sales growth
- Delay in execution may impact profitability
- Slower-than-expected order inflow in exports may affect sales growth

Peer comparison

Revenue growth – better than peers

Over the years, Skipper has grown almost 1.4x than top peers (Exhibit 13). With its cost advantage, Skipper's sales are expected to continue outperforming peers over the next three years.

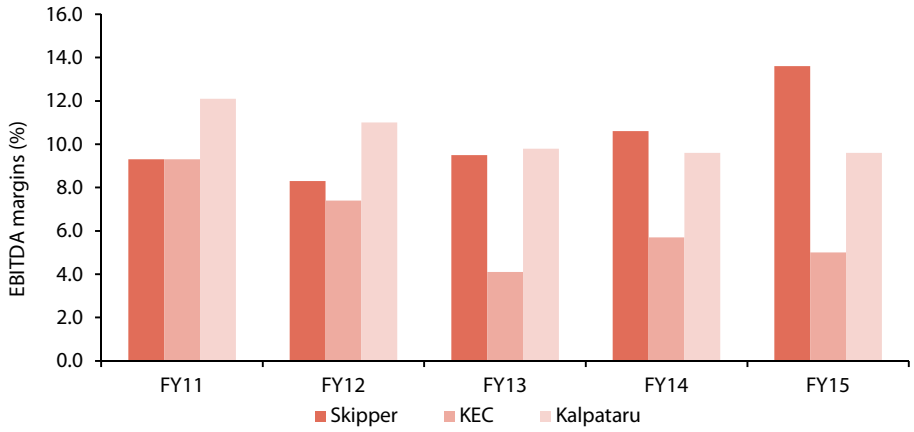
Exhibit 40: Revenue growth- better than peers by ~1.4x



Source: Bloomberg, Company, Centrum Research

With higher product sales versus EPC, profitability of skipper is ~3-4% better than Kalpataru and ~6-7% better than KEC. With increasing contribution from exports, Skipper is expected to continue to with healthy profitability better than peers.

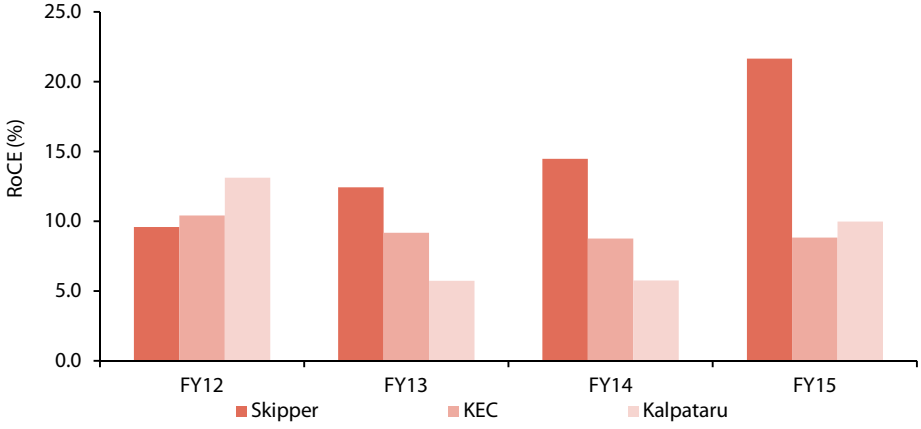
Exhibit 41: Profitability better than peers due to higher product sales



Source: Bloomberg, Company, Centrum Research

Improved utilisations have led to better profitability, which resulted in improved RoCE. With sufficient capacity available for future growth, Skipper's RoCE are expected to remain strong over peers.

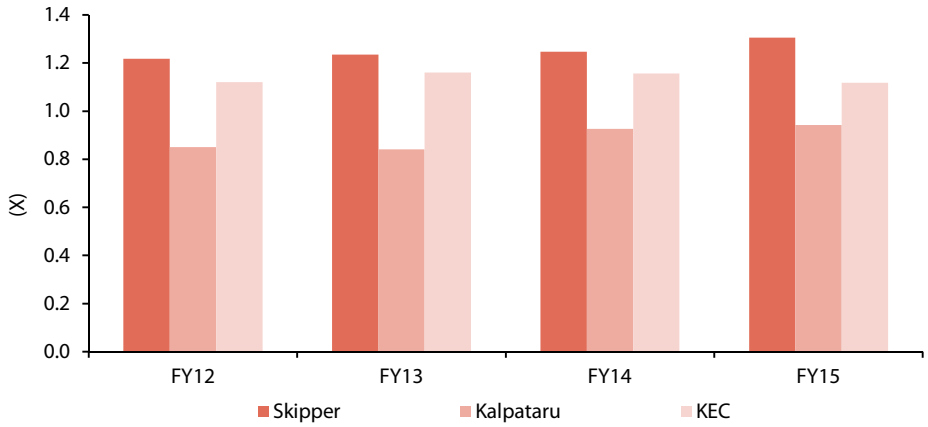
Exhibit 42: Improved utilisations led to better returns on capital employed in Skipper



Source: Bloomberg, Company, Centrum Research

Better asset turnover reflects appropriate utilisation of capital versus peers. With robust order book to execute, we believe Skipper's asset turnover will remain healthy compared to peers.

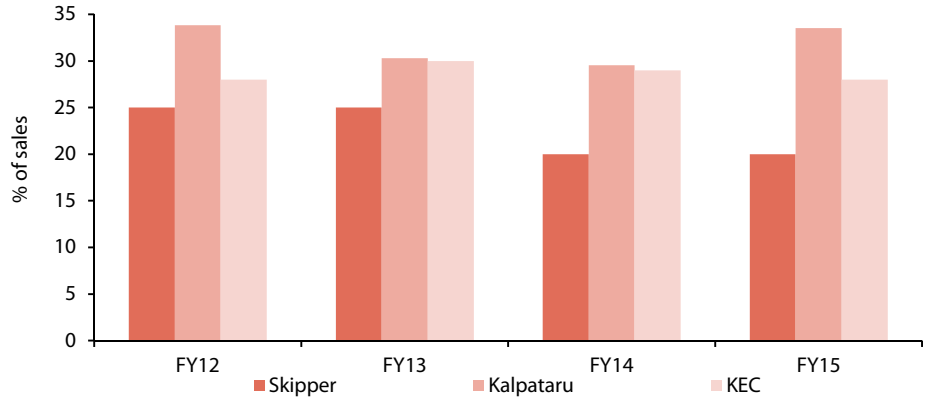
Exhibit 43: Asset Turnover



Source: Bloomberg, Company, Centrum Research

Due to higher focus on product business, Skipper's working capital requirement is lower. Higher contribution from EPC business among peers attracts higher working capital requirement. Skipper requires ~20% of working capital versus 30-35% required by peers due to higher product sales.

Exhibit 44: Working capital – % of sales



Source: Bloomberg, Company, Centrum Research

Quarterly Financial Trend

Exhibit 45: Quarterly financial trend

Y/E Mar (Rs mn)	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Net Sales	**2,237**	**2,300**	**4,313**	**1,832**	**2,649**	**3,227**	**4,995**	**2,344**	**3,436**
Other Op. Income	-	-	-	0	0	1	5	22	63
Total Cost	**1,990**	**2,048**	**3,936**	**1,558**	**2,352**	**2,753**	**4,312**	**2,013**	**3,070**
Raw Materials	1,523	1,608	3,492	1,166	1,782	2,233	3,617	1,460	2,290
Employee	69	77	70	71	89	93	87	102	124
Others	398	363	373	321	481	427	608	451	657
EBIDTA	**247**	**252**	**377**	**274**	**297**	**474**	**687**	**353**	**429**
Depreciation	38	39	38	54	51	52	63	59	58
EBIT	209	213	339	220	246	423	623	295	371
Other Income	7	2	9	8	1	7	1	6	26
Interest	113	151	201	127	129	173	154	147	114
PBT	**103**	**64**	**147**	**101**	**118**	**256**	**471**	**153**	**283**
Tax	28	20	39	35	185	86	168	53	161
EoI	-	-	-	-	420	-	-	-	181
Reported Profit	**75**	**44**	**108**	**66**	**353**	**171**	**303**	**100**	**303**
Adjusted PAT (incld. MI)	**75**	**44**	**108**	**66**	**71**	**171**	**303**	**100**	**181**
YoY Growth (%)									
Revenue	2.2	3.3	26.3	17.1	18.4	40.3	15.8	28.0	29.7
EBITDA	27.5	30.3	18.5	21.1	20.2	88.1	82.1	29.0	44.5
Adj. PAT	(0.9)	35.5	74.2	57.3	(4.8)	284.6	180.3	52.8	153.9
Margins (%)									
EBITDA	*11.0*	*11.0*	*8.7*	*14.9*	*11.2*	*14.7*	*13.7*	*14.9*	*12.2*
PBT	*4.6*	*2.8*	*3.4*	*5.5*	*4.5*	*7.9*	*9.4*	*6.5*	*8.1*
Adj.PAT	*3.4*	*1.9*	*2.5*	*3.6*	*2.7*	*5.3*	*6.1*	*4.2*	*5.2*
Segmental results									
Sales									
Engineering products	2,092	2,121	3,878	1,589	2,446	2,899	4,413	1,951	3,377
Infra projects	47	41	162	59	110	141	152	83	39
PVC products	98	137	273	184	93	187	434	333	264
EBIT									
Engineering products	207	221	273	217	233	390	970	295	612
Infra projects	11	9	79	16	28	53	13	19	5
PVC products	9	14	21	11	17	19	55	40	32
EBIT margins (%)									
Engineering products	*9.9*	*10.4*	*7.0*	*13.6*	*9.5*	*13.5*	*22.0*	*15.1*	*18.1*
Infra projects	*23.7*	*22.8*	*48.9*	*27.8*	*25.8*	*37.4*	*8.2*	*23.4*	*12.5*
PVC products	*9.4*	*10.5*	*7.8*	*6.1*	*18.8*	*10.0*	*12.8*	*12.1*	*12.2*

Source: Company, Centrum Research

Exhibit 46: Shareholding pattern (%)

	Q2FY16	Q1FY16	Q4FY15	Q3FY15
Promoter	*72.4*	*72.4*	*72.4*	*72.4*
FII	*0.0*	*0.0*	*0.0*	*0.0*
DII	*0.02*	*0.0*	*0.0*	*0.0*
Others	*27.6*	*27.6*	*27.6*	*27.6*

Source: BSE

Company Background

Established in 1981, Skipper Ltd is the flagship company of SK Bansal group. It is one of the leading manufacturers and suppliers of Transmission Towers and PVC products in Kolkata, with a network of 500 dealers. Skipper supplies products majorly in Eastern India and strives to achieve pan-India presence. It exports to South America, Europe, Africa, Middle East, South & South East Asia and Australia.

Exhibit 47: Promoters and key management personnel

Name	Position	Qualification and 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 being a single product manufacturer to multi-unit, multi-product manufacturer of products ranging from steel to plastics. He holds a B.Com degree.
Sharan Bansal	Director	A mechanical engineering graduate, he heads the Transmission Tower & EPC businesses. He has helped the company become one of the leaders in India's Transmission & Distribution sector.
Devesh Bansal	Director	He holds a master's degree in international business. He heads the tubular products division. He has pioneered the production of monopoles and manages the group's pan-India PVC expansion.
Siddharth Bansal	Director	He completed an entrepreneurship course from the University of Illinois. He spearheaded the company's diversification into non-steel products. He manages the fast growing PVC pipe manufacturing division.
Amit Kiran Deb	Independent Director	He has held several portfolios in the West Bengal state government (home, cultural & information, tourism & industry) before retiring as chief secretary and tourism secretary. He possesses extensive knowledge and experience across industries. He enjoys close interactions with prominent industrial houses.
Manindra Nath Banerjee	Independent Director	He has served in top positions in more than 10 state government undertakings. He has also worked at the Durgapur steel plant (on deputation from the state government).
Shyam Bahadur Singh	Independent Director	He joined SAIL as a graduate engineer in 1959 and rose to become the managing director of the Durgapur steel plant and director of SAIL in 1993. He retired in 2001. Widely travelled, he has been associated with several reputed businesses.
Mamta Binani	Independent Director	She is currently the Vice-President of the Institute of Company Secretary of India and one of the leading practicing Company Secretaries from Eastern India. She has 17 years of professional experience in corporate consultation & advisory.

Source: Industry, Company, Centrum Research

Financials

Exhibit 48: Income Statement

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Revenues	**10,415**	**12,702**	**16,171**	**20,850**	**24,021**
COGS	7,600	8,797	11,207	14,449	16,647
% of revenues	*73.0*	*69.3*	*69.3*	*69.3*	*69.3*
Operating expenses	1,439	1,838	2,279	2,895	3,242
% of revenues	*13.8*	*14.5*	*14.1*	*13.9*	*13.5*
Employee Costs	274	341	469	521	601
% of revenues	*2.6*	*2.7*	*2.9*	*2.5*	*2.5*
EBITDA	**1,102**	**1,726**	**2,216**	**2,985**	**3,532**
EBITDA Margin (%)	*10.6*	*13.6*	*13.7*	*14.3*	*14.7*
Depreciation & Amortisation	151	220	241	262	283
EBIT	**951**	**1,506**	**1,976**	**2,723**	**3,249**
Interest expenses	605	583	601	622	647
Other Income	21	17	27	34	50
PBT (excluding exceptional item)	**367**	**940**	**1,402**	**2,135**	**2,651**
Provision for tax	98	474	477	726	901
Effective tax rate (%)	*27*	*50*	*34*	*34*	*34*
Net Profit	**269**	**466**	**925**	**1,409**	**1,750**
Min. int./ share from asso.	-	-	-	-	-
Adj. PAT after excp.	**269**	**594**	**925**	**1,409**	**1,750**
Exceptional item	-	426			
Rep. PAT	**269**	**892**	**925**	**1,409**	**1,750**

Source: Company, Centrum Research Estimates

Exhibit 49: Key Ratios

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Growth Metrics (%)					
Revenue	*15.7*	*22.1*	*27.3*	*28.9*	*15.2*
EBITDA	*29.3*	*56.6*	*28.4*	*34.7*	*18.3*
Adj. Profit	*43.8*	*120.6*	*55.8*	*52.3*	*24.2*
Profitability Metrics (%)					
EBITDA Margin	*10.6*	*13.6*	*13.7*	*14.3*	*14.7*
PBIT Margin	*9.3*	*12.0*	*12.4*	*13.2*	*13.7*
PBT Margin	*3.5*	*10.8*	*8.7*	*10.2*	*11.0*
PAT Margin	*2.6*	*4.7*	*5.7*	*6.8*	*7.3*
Return Ratio (%)					
ROE	*12.5*	*22.5*	*27.2*	*31.8*	*29.9*
ROCE	*14.5*	*21.6*	*25.1*	*29.1*	*29.7*
ROIC	*11.0*	*14.6*	*18.1*	*21.1*	*22.1*
Turnover Ratio (days)					
Inventory period	80	66	80	80	80
Debtors period	81	108	100	100	100
Creditors period	62	80	75	72	70
Net working capital	38	25	95	93	97
Solvency Ratio (x)					
Debt-equity	1.9	1.3	1.2	1.0	0.8
Net debt-equity	1.8	1.1	1.0	0.8	0.5
Current Ratio	1.3	1.3	1.2	1.3	1.4
Interest coverage	1.6	2.6	3.3	4.4	5.1
Dividend					
Dividend per share	0.2	1.3	1.3	1.3	1.3
Dividend payout ratio (%)	*6.7*	*18.0*	*17.3*	*11.4*	*9.1*
Dividend yield (%)	*0.1*	*0.9*	*0.8*	*0.8*	*0.8*
Per share (Rs)					
Basic EPS - Adjusted	2.7	5.8	9.0	13.8	17.1
Fully diluted EPS - Adjusted	2.7	5.8	9.0	13.8	17.1
Fully diluted EPS - Reported	2.7	8.7	9.0	13.8	17.1
CEPS	4.2	8.0	11.4	16.3	19.9
Book value	23.0	29.3	37.2	49.4	64.9
Valuation (x)					
P/E (Adj.)	52.2	24.5	16.7	11.0	8.8
P/BV	6.2	4.8	4.1	3.1	2.3
EV/EBITDA	16.5	10.3	8.8	6.5	5.4
EV/Sales	1.7	1.4	1.2	0.9	0.8
Mcap/Sales	1.3	1.1	1.0	0.7	0.6

Source: Company, Centrum Research Estimates

Exhibit 50: Balance Sheet

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	102	102	102	102	102
Minority Interest	-	-	-	-	-
Reserves	2,209	2,936	3,701	4,950	6,540
Shareholders' fund	**2,312**	**3,039**	**3,804**	**5,053**	**6,642**
Debt	**4,395**	**3,829**	**4,752**	**4,820**	**5,137**
Deferred Tax/non current Liability	227	265	265	264	266
Total Capital Employed	**6,934**	**7,132**	**8,820**	**10,136**	**12,045**
Net Fixed Assets	**3,468**	**3,547**	**3,807**	**3,845**	**4,061**
Investments	-	-	-	-	-
Inventories	2,290	2,282	3,544	4,570	5,265
Sundry Debtors	2,318	3,758	4,430	5,712	6,581
Cash & bank balances	263	561	766	932	1,539
Loans and advances	455	458	576	571	658
Other current assets	21	31	39	50	58
Total current assets	**5,347**	**7,090**	**9,356**	**11,836**	**14,101**
Creditors	1,575	2,415	2,880	3,543	3,948
Other current liabilities and provision	306	1,090	1,463	2,001	2,169
Net current assets	**3,466**	**3,585**	**5,013**	**6,292**	**7,984**
Deferred Tax Asset/Others	-	-	-	-	-
Total Assets	**6,934**	**7,132**	**8,820**	**10,136**	**12,045**

Source: Company, Centrum Research Estimates

Exhibit 51: Cash Flow

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	**367**	**940**	**1,402**	**2,135**	**2,651**
Depreciation	151	220	241	262	283
Change in working capital	(116)	189	(1,215)	(1,102)	(1,076)
Total tax paid	(62)	(427)	(477)	(726)	(901)
Others	592	993	574	588	598
Cash flow from oper. (a)	**932**	**1,915**	**525**	**1,157**	**1,555**
Capital expenditure	(321)	(299)	(539)	(300)	(500)
Change in investments	-	-	-	-	-
Others	1	6	18	23	42
Cash flow from inv. (b)	**(320)**	**(294)**	**(521)**	**(277)**	**(458)**
Free cash flow (a+b)	**613**	**1,621**	**4**	**880**	**1,097**
Equity raised/(repaid)	(0)	-	-	-	-
Debt raised/(repaid)	152	(566)	923	68	317
Dividend (incl. tax)	(18)	(160)	(160)	(160)	(160)
Others	(611)	(597)	(562)	(622)	(647)
Cash flow from fin. (c)	**(478)**	**(1,323)**	**201**	**(714)**	**(490)**
Net chg in cash (a+b+c)	**135**	**298**	**205**	**166**	**607**

Source: Company, Centrum Research Estimates

Financials – Historical

Exhibit 52: Income Statement

Y/E Mar(Rs mn)	FY12	FY13	FY14	FY15
Revenues	**7,403**	**9,003**	**10,415**	**12,702**
COGS	5,582	6,829	7,600	8,797
% of revenues	*75.4*	*75.8*	*73.0*	*69.3*
Operating expenses	1,039	1,128	1,439	1,838
% of revenues	*14.0*	*12.5*	*13.8*	*14.5*
Employee Costs	170	195	274	341
% of revenues	*2.3*	*2.2*	*2.6*	*2.7*
EBITDA	**612**	**853**	**1,102**	**1,726**
EBITDA Margin (%)	*8.3*	*9.5*	*10.6*	*13.6*
Depreciation & Amortisation	117	126	151	220
EBIT	**495**	**727**	**951**	**1,506**
Interest expenses	367	464	605	583
Other Income	13	14	21	17
PBT (excluding exceptional item)	**141**	**278**	**367**	**940**
Provision for tax	47	90	98	474
Effective tax rate (%)	*33*	*33*	*27*	*50*
Net Profit	**94**	**187**	**269**	**466**
Min. int./ share from asso.	-	-	-	-
Adj. PAT after excp.	**94**	**187**	**269**	**594**
Exceptional item	-	-	-	426
Rep. PAT	**94**	**187**	**269**	**892**

Source: Company, Centrum Research

Exhibit 53: Key Ratios

Y/E Mar(Rs mn)	FY12	FY13	FY14	FY15
Growth Metrics (%)				
Revenue	*47.3*	*21.4*	*15.7*	*22.1*
EBITDA	*30.5*	*39.3*	*29.3*	*56.6*
Adj. Profit	*(46.9)*	*99.7*	*43.8*	*120.6*
Profitability Metrics (%)				
EBITDA Margin	*8.3*	*9.5*	*10.6*	*13.6*
PBIT Margin	*6.9*	*8.2*	*9.3*	*12.0*
PBT Margin	*1.9*	*3.1*	*3.5*	*10.8*
PAT Margin	*1.3*	*2.1*	*2.6*	*4.7*
Return Ratio (%)				
ROE	*6.0*	*10.3*	*12.5*	*22.5*
ROCE	*9.6*	*12.4*	*14.5*	*21.6*
ROIC	*6.5*	*8.6*	*11.0*	*14.6*
Turnover Ratio (days)				
Inventory period	83	97	80	66
Debtors period	72	63	81	108
Creditors period	60	52	62	80
Net working capital	27	33	38	25
Solvency Ratio (x)				
Debt-equity	2.3	2.1	1.9	1.3
Net debt-equity	2.2	2.0	1.8	1.1
Current Ratio	1.2	1.3	1.3	1.3
Interest coverage	1.4	1.6	1.6	2.6
Dividend				
Dividend per share	0.2	0.1	0.2	1.3
Dividend payout ratio (%)	*13.2*	*6.1*	*6.7*	*18.0*
Dividend yield (%)	*0.1*	*0.1*	*0.1*	*0.9*
Per share (Rs)				
Basic EPS - Adjusted	1.3	2.5	2.7	5.8
Fully diluted EPS - Adjusted	1.3	2.5	2.7	5.8
Fully diluted EPS - Reported	1.3	2.5	2.7	8.7
CEPS	3.0	4.2	4.2	8.0
Book value	22.7	27.2	23.0	29.3
Valuation (x)				
P/E (Adj.)	106.8	56.4	52.2	24.5
P/BV	6.3	5.2	6.2	4.8
EV/EBITDA	22.2	17.2	16.5	10.3
EV/Sales	1.8	1.6	1.7	1.4
Mcap/Sales	1.4	1.2	1.3	1.1

Source: Company, Centrum Research

Exhibit 54: Balance Sheet

Y/E Mar(Rs mn)	FY12	FY13	FY14	FY15
Equity Share Capital	360	97	102	102
Minority Interest	-	-	-	-
Reserves	1,275	1,963	2,209	2,936
Shareholders' fund	**1,635**	**2,061**	**2,312**	**3,039**
Debt	**3,683**	**4,243**	**4,395**	**3,829**
Deferred Tax/non current Liability	111	197	227	265
Total Capital Employed	**5,429**	**6,501**	**6,934**	**7,132**
Net Fixed Assets	**2,848**	**3,298**	**3,468**	**3,547**
Investments	0	-	-	-
Inventories	1,689	2,378	2,290	2,282
Sundry Debtors	1,449	1,549	2,318	3,758
Cash & bank balances	86	128	263	561
Loans and advances	614	507	455	458
Other current assets	7	9	21	31
Total current assets	**3,846**	**4,571**	**5,347**	**7,090**
Creditors	1,120	1,162	1,575	2,415
Other current liabilities and provision	145	206	306	1,090
Net current assets	**2,581**	**3,203**	**3,466**	**3,585**
Deferred Tax Asset/Others	-	-	-	-
Total Assets	**5,429**	**6,501**	**6,934**	**7,132**

Source: Company, Centrum Research

Exhibit 55: Cash Flow

Y/E Mar(Rs mn)	FY12	FY13	FY14	FY15
Profit before tax	**141**	**278**	**367**	**940**
Depreciation	117	126	151	220
Change in working capital	190	(578)	(116)	189
Total tax paid	(31)	(20)	(62)	(427)
Others	360	451	592	993
Cash flow from oper. (a)	**778**	**256**	**932**	**1,915**
Capital expenditure	(549)	(576)	(321)	(299)
Change in investments	-	0	-	-
Others	8	11	1	6
Cash flow from inv. (b)	**(541)**	**(565)**	**(320)**	**(294)**
Free cash flow (a+b)	**237**	**(309)**	**613**	**1,621**
Equity raised/(repaid)	-	250	(0)	-
Debt raised/(repaid)	177	561	152	(566)
Dividend (incl. tax)	(12)	(11)	(18)	(160)
Others	-	-	(611)	(597)
Cash flow from fin. (c)	**(220)**	**351**	**(478)**	**(1,323)**
Net chg in cash (a+b+c)	**17**	**42**	**135**	**298**

Source: Company, Centrum Research

Appendix A

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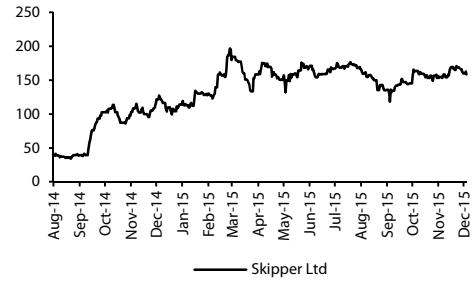
Skipper price chart



Source: Bloomberg, Centrum Research

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