Skipper Ltd. INR 177

Transmission capex play; poised to grow | BUY

Skipper Ltd. ("Skipper") founded in 1981, is among India's top three Power Transmission Tower manufacturing companies. The company is complete integrated player offering towers, fasteners, accessories as well as EPC solutions. It is also engaged in the production of poles-monopoles and PVC pipes, etc. Skipper is promoted by Kolkata based S K Bansal Group. We believe while Skipper is a strong play on domestic transmission capex and the company scaling up globally coupled with the anticipated robust PVC pipe revenues should form the major earnings triggers ahead.

Transmission business, a sweet spot: Skipper is among the top 3 players (10-15% market share) in the transmission tower business with capacity of 1,75,000 MTPA. Moreover, the company's operations being in the 400 KV - 1200 KV segment, which has entry barriers like prequalification, quality & infrastructure related criteria, it stands to benefit. Skipper generates ~80% its domestic revenue from PGCIL. We believe pick up in PGCIL orders, increased government focus and investments provide good growth outlook for the company in T&D segment. Going with the past two to three year trends and as cited by management, we too believe, Skipper should successfully increase capacity by ~20-25% Y-o-Y going forward; moreover, currently it operates efficiently at ~90% capacity.

Robust orderbook, increased export revenues provide revenue visibility: Healthy order book of INR 22,000 mn (1.7x of FY15 revenues) provides visibility of revenue (CAGR FY16-18E: 27.72%) over next 2.5 years. The company expects order inflows of INR 20,000 mn in FY16; export order being around 45% (FY15) of the total order book, should drive the company's revenue share in coming years from present small share of ~4% (FY15). Besides, the company's foray into long-term supply contract with transmission system operators (TSO) in Latin America, should provide huge potential to grow revenues in turn enhancing visibility ahead.

Integrated business model and location provides cost advantage: Skipper has complete value chain from angles to tower production to fasteners to EPC resulting in control of ~80% of the cost on any tower line. The company has done backward integration through angle rolling which is the primary raw material for towers and horizontally integrated with manufacturing of fasteners and accessories for towers. Moreover, the plant location in Eastern India allows logistical advantage providing access to major raw material-steel billets. Also, below industry average employee cost proves as an edge over peers for Skipper. Therefore, benefits arising from the logistics and cost advantages have always aided Skipper to maintain EBITDA margins of ~300-400 bps higher than peers and going forward, we expect this trend to sustain. Against this backdrop, we expect the company's EBITDA margins to settle in the range of 14-15% during FY16-18E.

Venturing into monopoles Business – a first mover advantage: Skipper is also present in the Poles & monopoles segment and ranks amongst India's top 4 Pole manufacturing companies and a pioneer in the production of Monopoles, which are self-supporting tubular structure carrying transmission lines and also find extensive usage in telecom capacities and 4G network expansions. The company has designing and manufacturing monopoles tie-up with Ramboll of Denmark and manufactures for the entire basket of products. We expect this segment to witness uptick and provide huge opportunity to grow.

PVC business getting bigger: Skipper manufactures PVC pipes and has captured 10% market share in eastern India, through network of around 500 dealers in short span of time. The company has collaborated with global giants, Sekisui of Japan to procure CPVC compounds and Wavin of Netherlands for plumbing solutions, which we believe will provide technological advantage resulting in manufacture of quality products and enhance company brand. Going forward, the company has ambitious growth plans of increasing its revenues 10x from PVC pipes by FY19 from INR 897 Mn in FY15.

KRChoksey INSTITUTIONAL

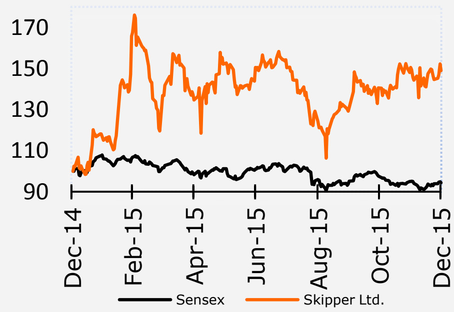
Target Price (INR): INR 285
Potential Upside : 61%

Market Data	
Shares outs (Mn)	102
Equity Cap (Mn)	102.3
Mkt Cap (INR Mn)	17015.2
52 Wk H/L (INR)	200/105
Avg Vol(3M avg K)	57.80
Face Value (INR)	1
Bloomberg Code	SKIPPER IN

Market Info:

SENSEX	26160.9
NIFTY	7963.2

Share Price Performance



Share Holding pattern (%)

Particulars	Sep15	Jun15	Mar15
Promoters	72.38	72.38	72.38
FIIs	0	0	0
DIIs	0.02	0	0
Others	27.6	27.62	27.62
Total	100	100	100

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Multi-fold capacity expansion through Asset Light model in PVC pipes business to boost further growth: Skipper's big expansion plans for its PVC pipes division is expected to add multifold capacity up to 100,000 tpa by FY18 from present 22,500 tpa. The company is adopting asset-light strategy by leasing the fixed infrastructure (land and sheds), in turn reducing capex requirement by ~60% and speedier entry in new markets. In addition, this strategy is expected in maintaining the debt at current levels despite massive capacity expansion. Moreover, we expect the share of PVC business to contribute almost 33% of the overall revenues from current 10%. Notably, the company is expanding its geographical reach to become PAN India player. Against this backdrop, we expect ROCE and ROE to be in the range of 25-33% and 24-29% respectively (during FY16-18E), which stands higher vis-a-vis industry averages and also better than peers.

Valuation & Outlook: Post exiting the loss making steel pipe business in FY15, Skipper today has emerged as a strong manufacturer of transmission towers and PVC pipes player. We believe increased government investment plans, favorable regulatory policies, increased private sector participation should drive the scalability in company's business ahead. Also, thanks to location advantage and integrated business model and renewed focus on profitability enrichment should translate into higher EBITDA margins in the range of 14-15% during FY16-18E from historical levels of 6 to 7% (past 4 years 9-11%). Moreover, this number stands ahead of peers. Robust order book providing revenue visibility in T&D business; multifold expansion in PVC business on a pan India level providing scalable growth opportunities reinforces our belief in sustainable superior earnings performance ahead (EPS CAGR FY16-18E - 46.12%). **We initiate coverage with a BUY and TP of INR 285 based on 15x PE of FY18E EPS and on 8.55x EV/EBITDA FY18E basis, implying 61% upside from current levels. At CMP of INR 177, the company trades at P/E of 9.3x its FY18E EPS of INR 19.02.**

Key Financials:

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	10,404	12,702	16,058	21,047	26,196
EBITDA	1,091	1,726	2,168	2,957	3,759
Adj. PAT	258	466	912	1,424	1,946
EPS	2.52	4.55	8.91	13.92	19.02
OPM (%)	10.49	13.59	13.50	14.05	14.35
NPM (%)	2.59	7.02	5.68	6.77	7.43

Source: Company, KRChoksey Research

BUSINESS OVERVIEW

Company Brief

Skipper Ltd. founded in 1981, is among India's top three Power Transmission Tower manufacturing companies. It is also engaged in the production of poles-monopoles and PVC pipes, etc. Transmission and distribution segment, PVC pipes segment and Infrastructure segment accounts for 89%, 7% and 4% of revenues respectively. Skipper is promoted by Kolkata based S K Bansal Group.

Business Model	Skipper Ltd. is among India's top three Power Transmission Tower manufacturing companies. The company has complete control over the value chain from angles to tower production to fasteners to EPC. In EPC, the scope of work includes process design including basic& detail designing, engineering, supplying towers, procuring essential accessories and commissioning of the projects. In PVC business the company is a regional player having 10% market share in eastern India. The company is in the middle of massive expansion plan of increasing PVC pipes capacity by 10x.
Strategic Positioning	Skipper ltd. is among top three manufacturers of transmission towers in the country. As a leading manufacturer and supplier of transmission towers, the company has forward integrated into EPC projects in the power T&D space and has emerged as a turnkey solutions provider. The company generates majority of its revenue from PGCIL and all manufacturing units of the company are approved by PGCIL. The majorly markets its PVC products in eastern India and has 10% market share in the region. The company has aggressive growth plans in PVC pipes segment and plans to become PAN India player. The company has partnered with global giants like Sekisui of Japan for CPVC pipes and Wavin of Netherlands for plumbing solutions.
Competitive Edge	• The Location of the company allows it to source the raw materials at lower cost, and enable it to save cost logistics cost. • The company has integrated operations which provides the company scope to register better margins. • The power transmission sector in India is expected to see ~$15bn of contract awards over the next one year, and the ordering activity shall be driven majorly by PGCIL. All manufacturing facilities of the company has been approved by PGCIL. • The company has International Collaborations with leading companies, which will give the company technological advantage over its peers. • With 175,000 MTPA the company has the capacity coupled with experience to execute large orders.
Financial Structure	The company has debt of INR 3,829 Mn, which the company plans to keep at same level despite massive capacity expansion as company is planning to fund expansion via internal accruals. The D/E ratio of the company has reduced from 2.1 to 1.3 in 3 years.
Key Competitors	KEC International, Kalpataru Power Transmission.
Industry Revenue Drivers	The Indian government, 'Power by 2020' will require huge transmission investment which has been lagging Generation investment, for the past several years. PVC pipe demand will driven by various government initiatives like Pradhan Mantri Krishi Sinchai Yojna, swachh bharat abhiyan, housing for all. There is huge unsatisfied demand for irrigation in India and the demand for quality PVC pipes remains unabated.
Share holder Value Proposition	Skipper is leader in power transmission tower manufacturing in India having huge growth potential and focusing on increasing exports. The company has integrated operations and enjoys location advantage, leading to higher margins by ~300bps-400bps. Also, the company has strong presence in manufacturing monopoles. In PVC business, the company is adding multifold capacity with an asset light model, targeting exponential growth. Order book remains strong at INR 22,000 Mn providing revenue visibility.

Investment Rationale:

Transmission business, a sweet spot: Skipper is among the top 3 players (10-15% market share) in the transmission tower business with capacity of 1,75,000 MTPA.

(a) Transmission bigger problem than generation in India: One of the major reasons for power deficit in India is shortage in transmission capacity. Power transmission has been a bigger challenge in India 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 even after 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. Even within a state boundary, shortage in transmission networks is leading to underutilization of generation capacity.

(b) Renewable Energy to provide new opportunities for transmission: Additional to the traditional sources of energy, India has intensified its focus towards renewable energy as a solution to the growing energy demand and environmental concern. Subsequently, installed capacity for this alternative energy source has been ramped up with the active participation of both government and private players. This has necessitated synchronizing electricity produced from renewable sources by setting up transmission infrastructure that connects with the national grid.

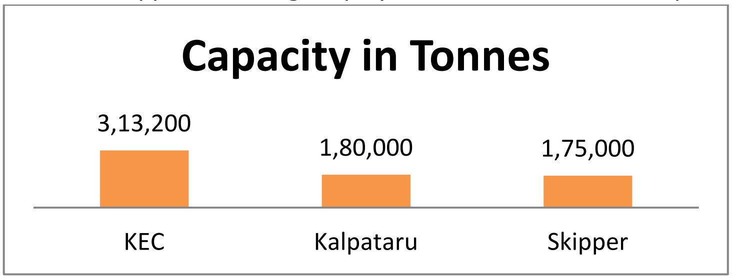
(c) Power deficit: With around 2,72,503 MW of installed generation capacity, 3,16,281 ckm of installed transmission capacity and 6,08,245 MVA of substation transformation capacity, the Indian power sector has achieved remarkable growth over the years. However, India still faces perennial shortage of power and around 25 percent of India's population is still without access to electricity. India's burgeoning population, rapid urbanization and industrialization, emphasis on 24X7 power across the country by 2019, focus on infrastructure development combined with proposed establishment of smart cities imply high growth in electricity demand which necessitates continuous and efficient supply of electricity.

(d) Increased V year Plans Expenditure: Elaborating more on capacity additions, the 12th and 13th plan envisage around 88,537 MW and 93,400 MW of generation capacity addition; 1,09,440 ckm and 1,30,000 ckm of transmission capacity addition and 2,70,000 MVA and 3,00,000 MVA of substation capacity addition respectively. This requires an investment of INR 1,80,000 crores and INR 3,06,235 crores during the 12th plan for transmission & distribution capacity addition respectively. The T&D sector in particular suffers from substantial underinvestment as compared to the generation sector. Evacuation of power is a major concern in India which has to be addressed at the earliest. Ensuring energy security is vital for India's growth and development. Adequate funds have to be infused to strengthen the T&D network in India.

(e) Government Programs: India's power sector holds an enormous growth potential. The per capita consumption of power in India is around 90 kVA per person, compared to the global per capita consumption of 313 kVA per person and China's 447 kVA per person. The country's growing population, rapid urbanization and accelerating industrialization will drive the demand for power consumption in the coming years. Growth in the power sector will be catalysed by the government's decision to create 100 smart cities, Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), Restructured Accelerated Power Development and Reforms Programme (R-APDRP), and North East India transmission investment. In fact, during 2015-16, the government has set itself an ambitious target for bidding out new Transmission projects worth 1 lakh crore. This scenario will create a strong demand for the country's transmission infrastructure, which is poised to grow at 8-9% (decadal growth 6-7%). For several years during 2000-2015, the investment in T&D has been lagging the investment in Generation, and finally now, right efforts are being taken by the government to correct the same.

(f) Third Largest Transmission Tower Manufacturing Company: One of the world's largest Integrated Transmission Tower manufacturing companies with Angle Rolling, Tower, Accessories & Fastener manufacturing and EPC line construction facilities. This Segment accounted for 90% of the revenues in FY15.

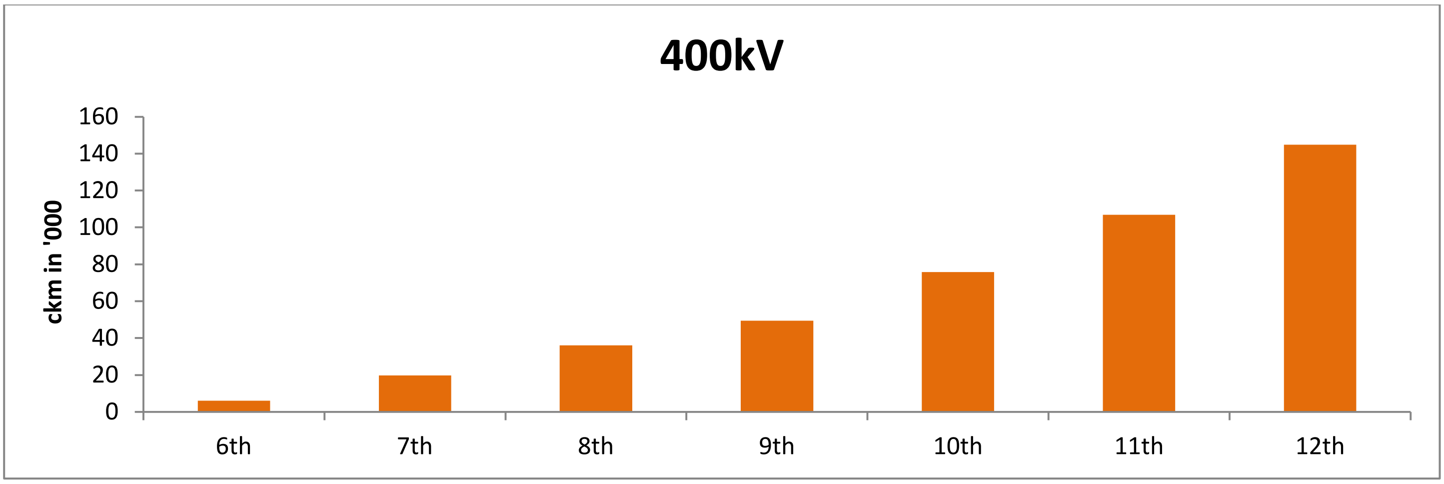
Chart 1: Skipper – 3rd largest player in India in terms of capacity



Source: Company, KRChoksey Research

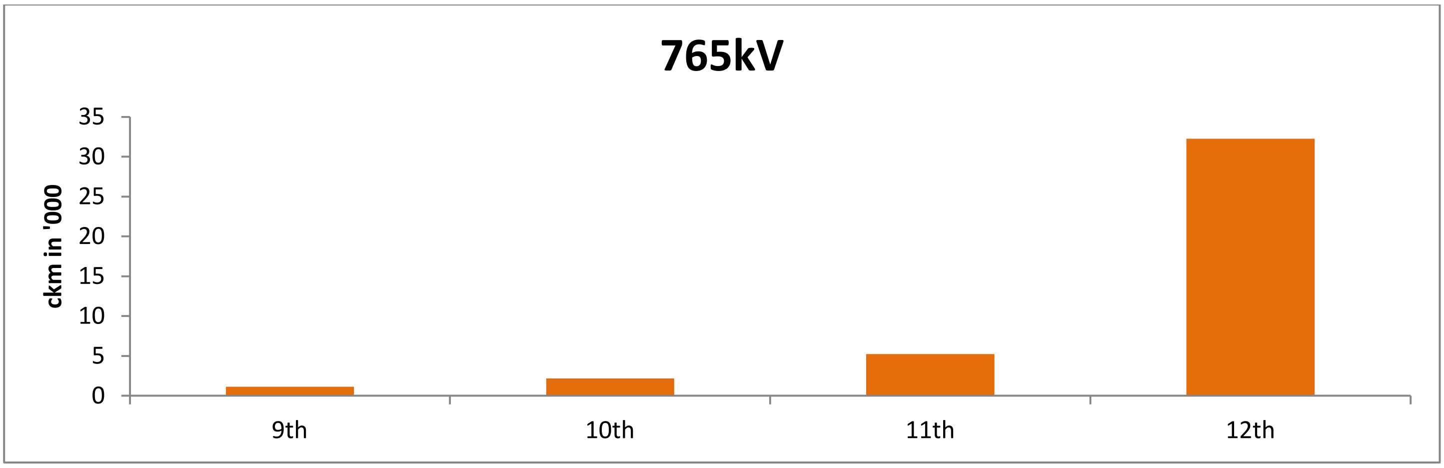
(g) Transmission Network over the plan period: The government has initiated an effort to move towards higher voltages and new technologies. Higher voltages lead to more efficient transfer of power while using lesser space. The company operates in 400 KV - 1200 KV segment, which has entry barriers like prequalification, quality & infrastructure related criteria. 54% of India's transmission line network is expected to be in 400 KV and above by the end of 12th Plan.

Chart 2: 400 kV transmission Network



Source: Power Ministry, KRChoksey Research

Chart 3: 765 kV transmission Network



Source: Power Ministry, KRChoksey Research

(h) UDAY Scheme to give boost to power sector: UDAY is important step to give operational space to SEB by reducing their interest burden, and allowing additional cash flow to spend on capex for operational improvement and buy more power. Sailent features of UDAY are (i) Improving operational efficiencies of DISCOMs; (ii) Reduction of cost of power; (iii) Reduction in interest cost of DISCOMs; (iv) Financial discipline on DISCOMs through integration with State finances. If implemented the scheme will be positive for the entire power sector.

Exhibit 1: Total Investment Potential (by 2022):

Area	Potential (USD Bn)
Renewables	120
Generation	50
Transmission	50
Sub Transmission & Distribution	25
Energy Efficiency	5
Total	**250**

Source: Power Ministry, KRChoksey Research

(i) Brownfield capacity expansion will enable the company to increase capacity at lower capex: Skipper plans increases its capacity by 20-25% every year (3,00,000 tonnes in 3 to 4 years) and to operate at ~90% capacity. The company has land and setup required for Brownfield expansion, thus reducing the capex.

Exhibit 2: Capacity - Transmission Towers:

Transmission	Uluberia	Unit 1	BCTL	Total
Towers	70,000	69,000	36,000	1,75,000
Hot Rolled Angles	2,15,000			
TOTAL	2,85,000	69,000	36,000	1,75,000

Source: Company, KRChoksey Research

Robust orderbook, increased export revenues provide revenue visibility: Healthy order book of INR 22,000 mn (1.7x of FY15 revenues) provides visibility of revenue (CAGR FY16-18E:) over next 2.5 years.

(a) Industry outlook: Reality Check – Orders already started flowing:

During the April-November, 2015, around 20,534 circuit kilometers (ckm) of transmission lines have been commissioned against 14,685 ckm commissioned during the same period in the previous year clocking a growth of 39.8%. This is 86.6% of the annual target of 23,712 ckm fixed for 2015-16. Similarly, the overall increase in the transformation capacity has been 33,181 MVA during April-November, 2015 constitutes 65.7% of the target of 50,542 fixed for 2014-15.

An investment of about INR 1,00,000 Crore has been envisaged by PGCIL for further development of inter-State transmission systems during XII Plan. As per the industry, the power transmission sector in India will get order inflows worth ~$15 Bn over next 1 year. Transmission contracts are awarded majorly by PGCIL and SEB's. Skipper generates ~80% its domestic revenue from PGCIL. Skipper has been among the top company for PGCIL orders.

Exhibit 3: PGCIL contracts by value awarded:

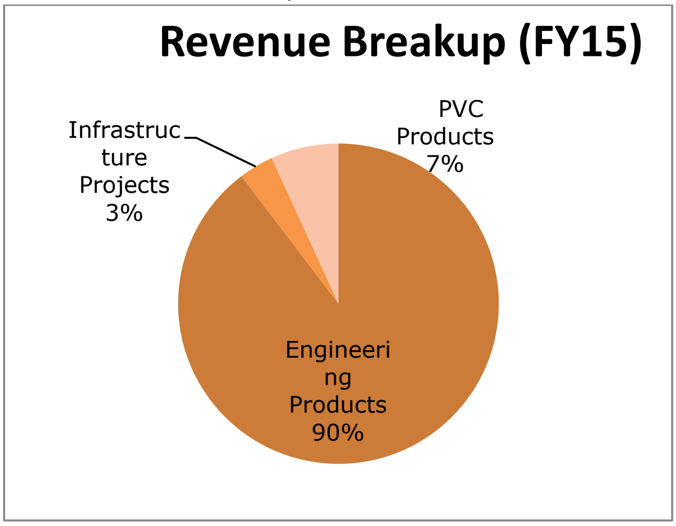
Sr. No.	Company	INR Mn
1	KEC International Ltd.	18,351
2	New Northeast Electric Group High Voltage Switchgear Co. Ltd.	10,964
3	Tata Projects Ltd.	10,857
4	Hyosung Corporation	10,391
5	Larsen & Toubro Ltd.	8,408
6	Kalpataru Power Transmission Ltd.	8,354
7	Alstom T & D India Ltd.	7,489
8	Vijai Electricals Ltd.	6,412
9	Gupta Power Infrastructure Ltd.	6,131
10	Sterlite Technologies Ltd.	5,694
11	Apar Industries Ltd.	5,529
12	EMC Ltd.	5,364
13	Bharat Heavy Electricals Limited (BHEL)	5,125
14	Rongxin Power Electronic Co. Ltd.	4,845
15	Godrej & Boyce Mfg. Co. Ltd	4,174
16	Karamtara Engineering Pvt. Ltd.	4,156
17	Punj Lloyd Ltd.	3,616
18	Techno Electric & Engg. Co. Ltd.	3,105
19	Skipper Ltd.	2,922
20	Emco Ltd.	2,861

Source: Power Ministry, Industry Reports

(b) Company outlook: Robust Order book provides earnings visibility: The order book stands at INR 22,000 Mn (1.7X its FY15 revenues) providing visibility of revenue over next 2-2.5 years. The company has also bid for order worth INR 20,000 Mn in FY16, the outcome of which is expected in coming quarters. The management is optimistic to get INR 10,000 Mn worth of orders and close the FY16 with ~30,000 Mn (INR 24,500 Mn in FY15) order book.

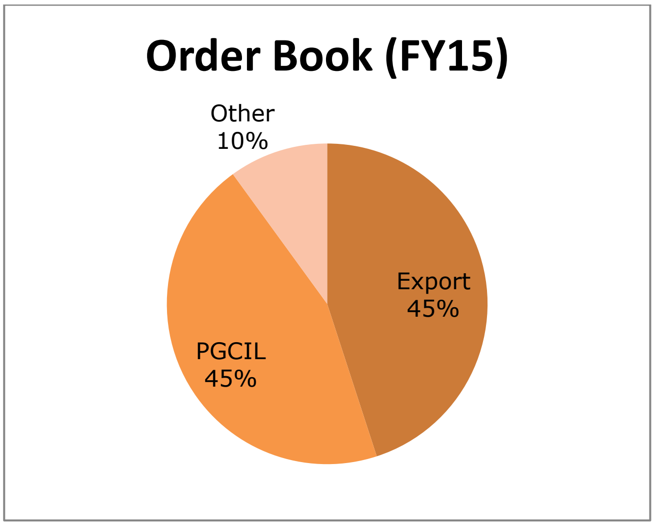
In engineering products business, the company is fast evolving from a national to an international player. Export order comprises around 45% of the total order book, which will increase its revenue share in coming years from present small share of ~4%. The company has entered into long-term supply contract with transmission system operators (TSO) in Latin America. The advantages of working in latin American markets are that market still hold large potential for growth and margins are better than other regions. All this improves revenue assurance and establishes its presence in this fast-growing market, which should generate new orders in future.

Chart 4: Revenue decomposition



Source: company, KRChoksey Research

Chart 5: Order book mix



Source: company, KRChoksey Research

Cost Advantage due to, integrated business model and location:

Skipper has complete value chain from angles to tower production to fasteners to EPC resulting in control of ~80% of the cost on any tower line. The company has done backward integration through angle rolling which is the primary raw material for towers and horizontally integrated with manufacturing of fasteners and accessories for towers. Moreover, the plant location in Eastern India allows logistical advantage providing access to major raw material-steel billets. Also, below industry average employee cost proves as an edge over peers for Skipper.

The backward and horizontal integration, scale of manufacturing and seamless raw material availability provide huge cost advantage. This results in transportation costs of steel billets of INR 450-500/MT, against the industry average of INR 2,000, which is mainly procured from SAIL's Durgapur plant, less than 200 km away.

Therefore, benefits arising from the logistics and cost advantages have always aided Skipper to maintain EBITDA margins of ~300-400 bps higher than peers and going forward, we expect this trend to sustain. Against this backdrop, we expect the company's EBITDA margins to settle in the range of 14-15% during FY16-18E.

PVC Business the next growth driver:

This will be the fastest growing segment for the company going forward. The company plans to become PAN India player from regional player and eyes one third of overall revenue from this segment from mere 7% in FY15. The company captured 10% market share of the PVC products business in eastern India and enjoys market leadership position in West Bengal and Bihar. The strong product portfolio of pipes, including CPVC pipes and SWR pipes makes skipper a major player across rural agricultural and urban plumbing segments. 60% of the pipes revenue came from irrigation and remaining 40% from housing.

Piping Industry in India has been growing at CAGR of 15% plus since last many years barring the last year when the growth was low due to poor economic conditions. This growth momentum is to continue in coming years also mainly because of change in the government. The Government's thrust on water supply, irrigation, river management, along with improving sanitation, sewerage and urbanisation is expected to drive the PVC pipes and fittings markets. Beside Housing for all will create huge demand for for plumbing, sewerage, rain water etc. Government has announced large projects, such as the National Rural Drinking Water programme, Swachh Bharat and river interlinking. Also, India has irrigation potential of 140 mn hectares. Out of this, only 40 per cent is under irrigation hence there is huge potential for PVC pipes.

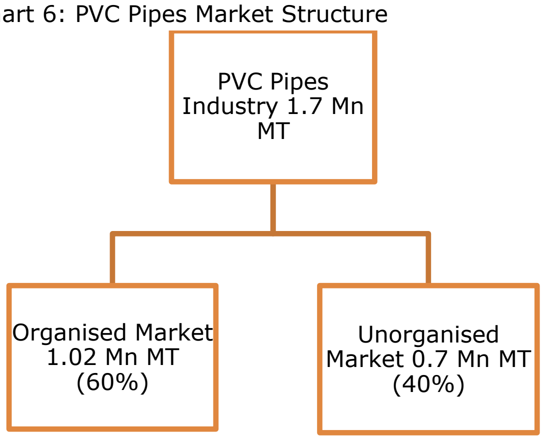
Plastic Piping Industry in India has a market size of appx. INR 215,000 Mn and Metal Industry is about INR 60,000 Mn. Since replacement of metal by plastic has been taking place rapidly, Plastic Industry is expected to grow at an accelerated pace in the coming years. Further analysis shows that the Plumbing Industry is largely dominated by organized players accounting for 65% of the market. Skipper is entering into lucrative CPVC pipes for Plumbing solutions.

Piping Industry of India is approximately INR 21,500 Mn consisting:

Irrigation: INR 3,300 Mn
PVC Pipes: INR 16,500 Mn
HDPE: INR 1,500 Mn
PPR etc: INR 200 Mn.

(a) **Shift from unbranded to branded pipes:** Over past few years customers are moving from unbranded to branded quality pipes, which is the key reason for growth of organized players. The size of the Indian PVC pipe industry is about 1.7 million MT. The share of the organised market is 60% and further rising with an increase in brand and quality preference. Due to increased distribution reach and the consistent quality of their products, organised players have been gaining market share from the unorganised sector. This shift from an unorganised to an organised market will be accelerated after the introduction of GST and is likely to benefit the Company.

Chart 6: PVC Pipes Market Structure



(b) **International collaborations to source raw material and technology will give competitive edge and enhance the brand of the products:** The Company has entered into the technological tie ups with two foreign companies, who are pioneers in their respective field and have a global presence. The Company has become the manufacturing partner of Sekisui a Japanese Company which is one of the world's leading manufacturers of CPVC compound, for manufacturing premium quality CPVC pipes. Secondly, the Company has entered into tie up with WAVIN, a Netherland based Company, which is one of the world's most renowned plumbing technology companies, for launching in India, the most advanced plumbing systems in the world. We believe such collaborations will give technological advantage resulting in manufacture of quality products and enhance brand of the company.

(c) Centre of excellence – Training Centre to create Brand Recall value for company's products: The Company is also developing a centre of excellence in Gujarat that will train 10,000 farmers and 2,000 semi-skilled and unskilled plumbers. Through this initiative, the company aims to contribute to the growing requirement of trained manpower in plumbing and farming sectors. We believe such quality programs will create brand recall value for the company.

Multi-fold capacity expansion through Asset Light model in PVC pipes business to boost further growth:
Skipper's big expansion plans for its PVC pipes division is expected to add multifold capacity up to 100,000 tpa by FY18 from present 22,500 tpa.

Asset Light Model – best fit for PVC pipes industry: The company follows asset light model through lease-out of fixed infrastructure (land and sheds), reducing capex costs by ~60%, INR 8,500 per MT of capacity against industry average of about INR 20,000 per MT, improving return ratios. In addition, the execution time is reduced substantially to 8-9 months against 22-24 months, ensuring faster entry into new market. Also, small capacities at different locations helps company to reach larger geographic area and save logistics cost. In addition, the strategy will help in keeping the debt at same level despite massive capacity expansion improving the return ratios. The newer plants will work on 80% automation hence will have world class machines and technologically advanced in the industry. The margins are expected to be superior to its peers.

Exhibit 4 : Capacity Expansion Plan:

Plant Location	Capacity (tpa)	Operating Status
Uluberia	15,000	Operational
Ahmedabad	10,000	Operational
Guwahati	4,000	Operational
Sikandarabad	8,000	Q3FY16
Hyderabad	6,000	Q4FY16
Planned	57,000	FY17/18
Total	**1,00,000**	

Source: company, KRChoksey Research

Financial Highlights:

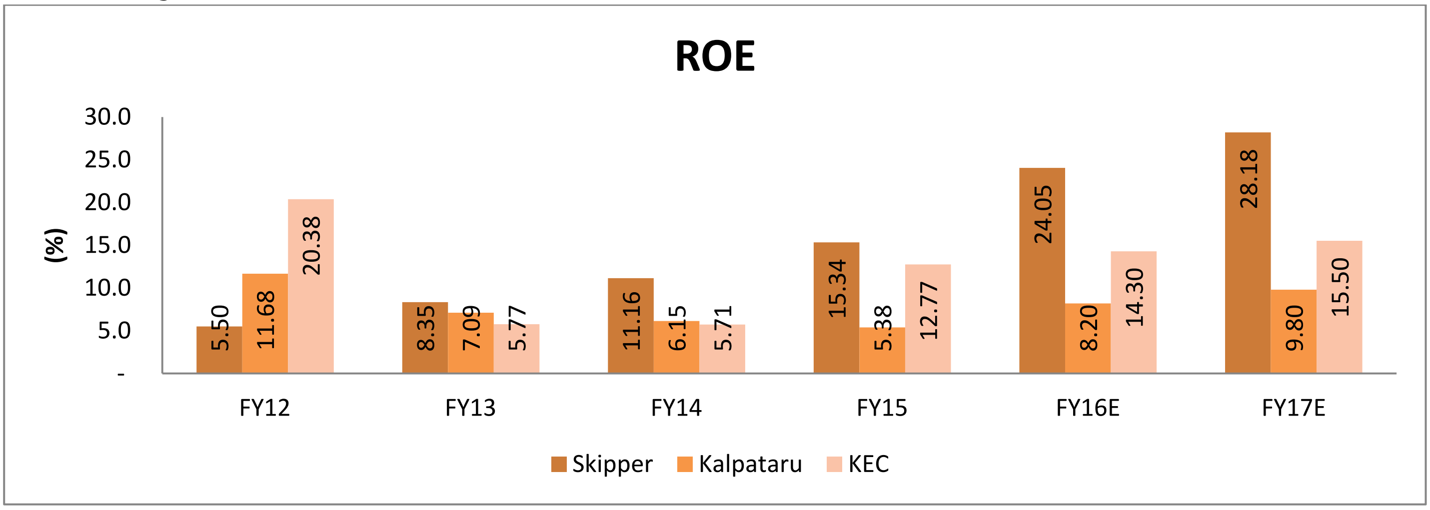
Rating Up-gradation expected to reduce finance cost: Rating agency CARE has upgraded the rating of the company two notches from A- to A+, which will enable the company to reduce its finance cost. The company plans to use money market instruments (Commercial Papers) going forward, which will further aid to reduce the short-term finance cost by around ~200 bps. The board has sanctioned amount of INR 500 Mn for raising funds through Commercial Papers.

Higher ROCE and ROE compared to peers: Skipper's ROE and ROCE has increased significantly in FY15 YoY due to:

a) Exited the negative EBITDA earning steel tubes business;
b) Operating leverage on account of higher capacity utililisation;
c) Use of Asset light model will keep the capex low compared to owned asset model.(reduce capex by ~60%);
d) Skipper's revenue will increase to INR 26,196 Mn from INR 12,702 Mn in FY15, with capex of only INR 2,000 Mn in next 3 years;
e) The low ROCE EPC business is not key focus area for the company and is a manufacturing focused player;

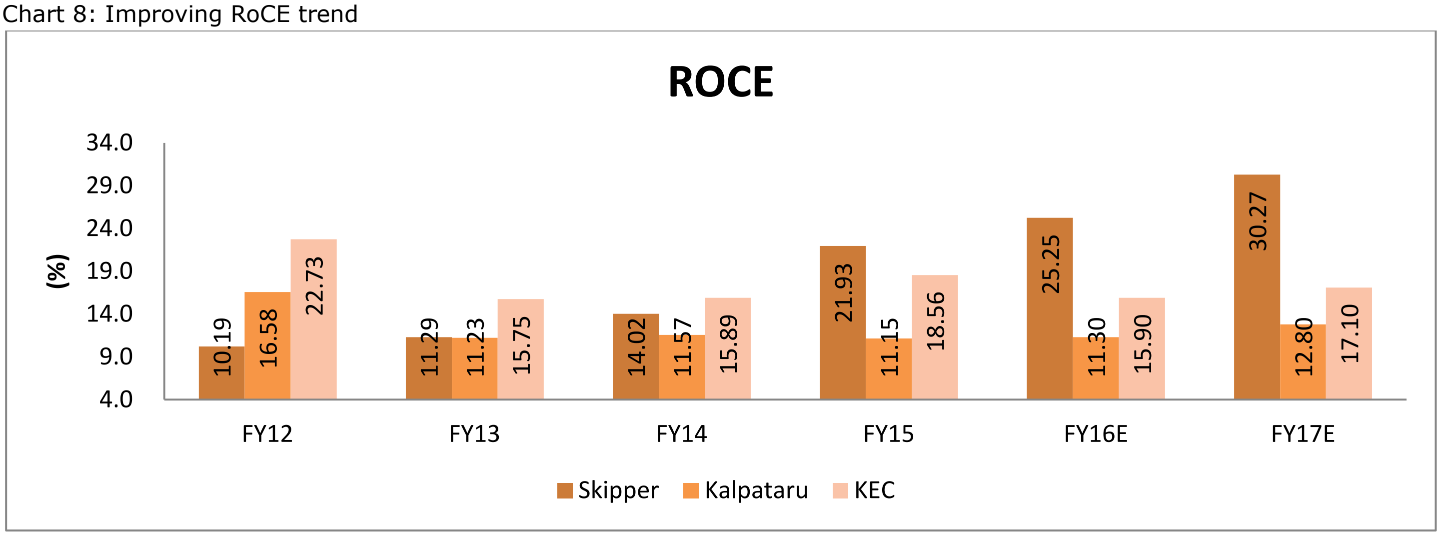
We expect ROCE and ROE to be in the range of 25-33% and 24-29% respectively, higher compared to the industry average ensuring better return ratios compared to peers.

Chart 7: Strong RoE trends



Source: company, KRChoksey Research

Chart 8: Improving RoCE trend

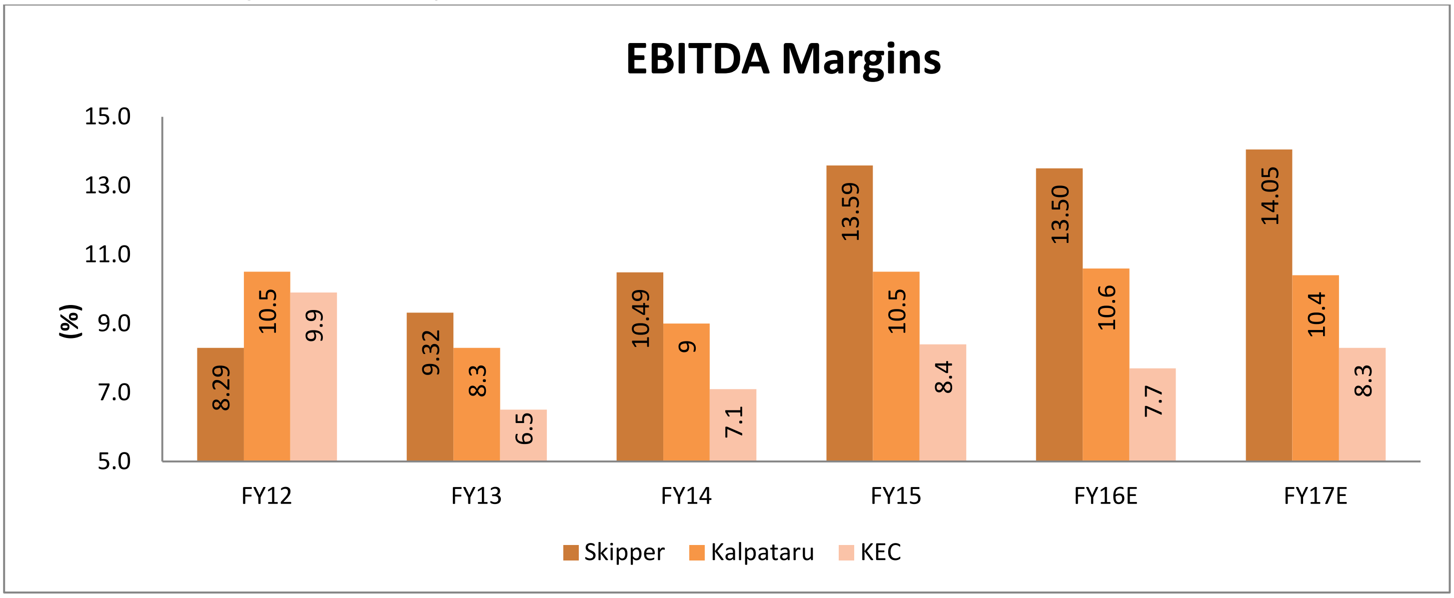


Source: Company, KRChoksey research

EBITDA Margins above industry average due to location advantage, lower employee cost and integrated business model:

Skipper has been profitable in past 10 years and we expect EBITDA margins of skipper to be in the range of 14-15% range going forward, which is higher compared to peers due to following factors:

Chart 9: EBITDA margins better than peers



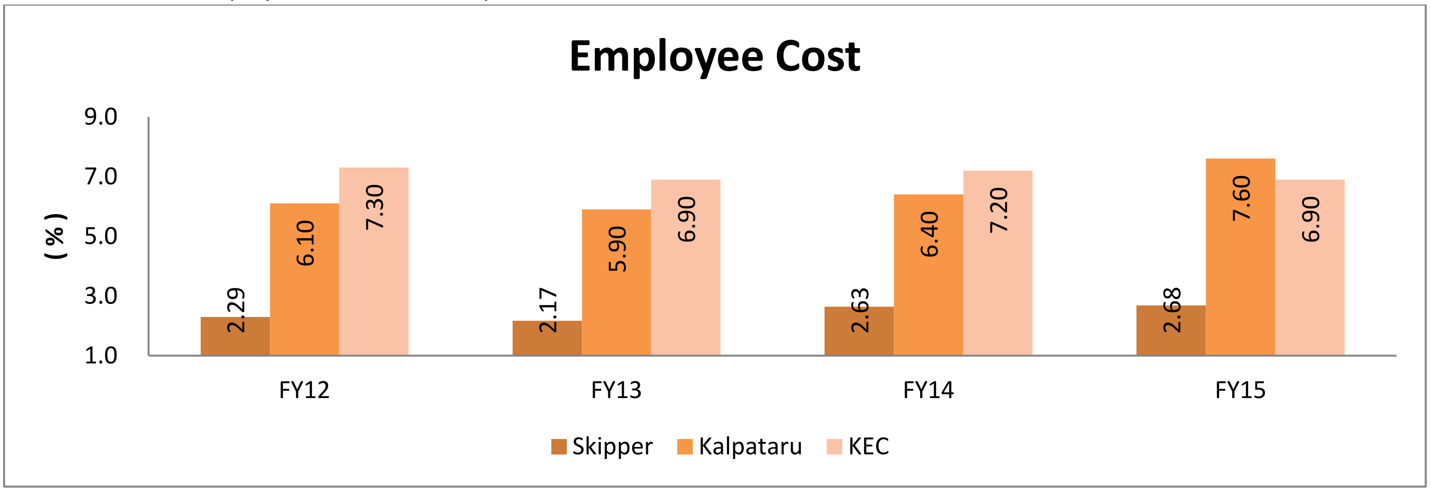
Source: Company, KRChoksey research

(a) Integrated business model: Skipper has complete value chain from angles to tower production to fasteners to EPC resulting in control of ~80% of the cost on any tower line. The company has done backward integration through angle rolling which is the main raw material for towers and horizontally integrated with manufacturing of fasteners and accessories for towers.

(b) **Location provides logistic cost advantage:** The backward and horizontal integration of business, scale of manufacturing and seamless raw material availability provides huge cost advantage to the company. This results in transportation costs of INR 450-500/MT, against the industry average of INR 2,000, which is mainly procured from SAIL's Durgapur plant, less than 200 km away.

(c) Employee cost lower compared to peers: Skipper enjoys lower employee cost as a % of sales when compared to peers. Employee cost of competitors range from ~6-7.5%, while the employee cost to skipper is 2.68% thus leading to higher EBITDA margins.

Chart 10: Lower employee costs vis-à-vis peers



Source: Company, KRChoksey research

Skipper may enjoy Income Tax benefit going forward: Skipper pays tax at marginal rate and does not enjoy any tax benefits. With the government's agenda to simplify the tax structure and reduce tax litigations, it has announced to reduce the tax sops and reduce the corporate tax rate from present 30% to 25% over coming years. Such tax rate reduction will directly have an positive impact on PAT.

Skipper transformational change

Post exiting the loss making steel pipe business in FY15, Skipper today has emerged as a strong manufacturer of transmission towers and PVC pipes player.

THEN	NOW	AHEAD
•Lower EBITDA Margins compared to peers due to negative EBITDA earning steel tubes business. •lower capacity utilisation in the range of 66-75% •Capital invested in EPC business, which generates low ROCE and ROE.	•The company has exited steel tubes business and do only job work for TATA STEEL. •capacity utilisation increased to ~90%. •PVC pipes capacity increased to 22,500 tpa from 10,000 tpa •EPC business no longer a key focus area.	•PAT focused business strategy •Incresed export revenues from mere 4% in FY15. •PVC business to contribute substantially to revenues from present INR 897 Mn to 33% of overall revenues. •Eyeing lager pie and becoming PAN India player in PVC business with asset light model. •PVC capacity to 1,00,000 tpa from present 22,500 tpa

Segment Performance:

Segment Revenue	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Engineering Products	15,892	28,663	28,991	44,134	19,511	33,774
QoQ Growth(%)	-59.02%	80.36%	1.15%	52.23%	-55.79%	73.11%
YoY Growth(%)	16.43%	37.00%	36.66%	13.81%	22.77%	17.83%
Infrastructure Projects	591	1,098	1,410	1,524	828	394
QoQ Growth(%)	-63.59%	85.80%	28.37%	8.10%	-45.69%	-52.41%
YoY Growth(%)	192.93%	136.13%	243.68%	-6.12%	40.03%	-64.13%
PVC Products	1,837	928	1,873	4,335	3,327	2,636
QoQ Growth(%)	-32.67%	-49.50%	101.85%	131.48%	-23.25%	-20.77%
YoY Growth(%)	2.35%	-5.41%	36.43%	58.87%	81.11%	184.14%
Total	**18,320**	**30,689**	**32,274**	**49,994**	**23,666**	**36,805**
QoQ Growth(%)	-57.52%	67.51%	5.16%	54.90%	-52.66%	55.52%
YoY Growth(%)	17.09%	37.20%	40.34%	15.91%	29.18%	19.93%

Segment Results	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Engineering Products	2,166	6,530	3,901	9,696	2,951	6,116
QoQ Growth(%)	-20.54%	201.50%	-40.27%	148.60%	-69.57%	107.27%
YoY Growth(%)	3.82%	214.80%	76.48%	255.71%	36.24%	-6.34%
Infrastructure Projects	164	284	528	125	193	49
QoQ Growth(%)	-79.30%	72.84%	85.89%	-76.28%	54.52%	-74.54%
YoY Growth(%)	117.73%	157.85%	462.95%	-84.23%	17.75%	-82.65%
PVC Products	113	175	187	553	402	322
QoQ Growth(%)	-46.74%	54.68%	7.18%	195.32%	-27.30%	-19.87%
YoY Growth(%)	27.99%	89.83%	30.32%	160.77%	255.99%	84.41%
Total	**2,443**	**6,989**	**4,615**	**10,375**	**3,546**	**6,487**
QoQ Growth(%)	-34.53%	186.07%	-33.96%	124.79%	-65.82%	82.94%
YoY Growth(%)	8.58%	206.99%	88.57%	178.03%	45.15%	-7.17%

EBIT Margins	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Engineering Products	13.63%	22.78%	13.45%	21.97%	15.12%	18.11%
Infrastructure Projects	27.77%	25.83%	37.41%	8.21%	23.35%	12.50%
PVC Products	6.15%	18.83%	10.00%	12.76%	12.08%	12.22%

ROCE	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Engineering Products	3.72%	9.10%	5.35%	16.01%	4.47%	7.93%
Infrastructure Projects	8.85%	13.82%	26.91%	6.61%	9.04%	1.75%
PVC Products	3.80%	5.93%	6.22%	12.06%	10.72%	6.40%

Key Milestones:

Year	Milestone achieved
1981	The Company was incorporated as 'Skipper Investments Limited'; by manufacturing Hamilton Poles.
1990	Company name changed to 'Skipper Steels Ltd.' and diversified into manufacturing telecom towers and masts.
2001	Set up LPG cylinder unit.
2003	Set up first Tube mill.
2005	Set up first Galvanising plant.
2006	Crossed INR 1 Billion in revenue Got Powergrid approval for tower unit and first order itself of 400KV towers (the highest voltage level at that time), Entered into a manufacturing tie-up with Ramboll, Denmark – the world's largest tower designing company.
2007	Entered into value addition of steel tubes as scaffoldings.
2008	Conversion of tower production process from manual to automatic CNC.
2009	Got India's first order for 800KV transmission towers from Power Grid Corporation of India Limited (PGCIL) Commissioned Uluberia unit with first PVC unit and India's first double side Tube GI plant Company name changed to Skipper Limited.
2010	Entered into backward integration of the two major product verticals tubes and towers, by way of Strip mill and Angle mill, respectively.
2011	Focus on broader and diversified product verticals.
2013	Crossed INR 10 Billion in revenue Alliance agreement with South America's largest TSO for exclusive supply to their transmission projects.
2014	Listed with BSE - market capitalisation over INR 15,000 Mn (end March 2015)
2015	Crossed order book position of INR 24,500 Mn, recommended a dividend of 130%. CNBC TV-18 awards the Company as the 'Fastest growing Transmission Tower Manufacturing Company'. New PVC captive support unit got operational at Ahmedabad in April 2015. Listed with NSE in May 2015 with Mcap of INR 17,900 Mn. Crossed revenue of INR 14,000 Mn.

Management Team:

Name	Position	Experience
Mr. 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.
Mr. 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.
Mr. 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.
Mr. 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.
Mr. 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.
Mr. 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.
Mr. 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.
Mrs. 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.
Mr. Shankar Lal Poddar	Independent Director	His long association with the Company coupled with continuous efforts has contributed to the growth of the Company.

Profit & Loss Account:

Particulars (INR mn)	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	10,404	12,702	16,058	21,047	26,196
YoY % growth	*15.75%*	*22.09%*	*26.42%*	*31.07%*	*24.46%*
Raw material cost	7,870	8,551	10,839	14,144	17,578
(Inc)/Dec in stock in trade	-269	246	305	400	498
Staff cost	274	341	434	558	694
Other expense	1,439	1,838	2,312	2,989	3,667
Total Expenditure	9,313	10,976	13,890	18,090	22,437
EBITDA	**1,091**	**1,726**	**2,168**	**2,957**	**3,759**
YoY % growth	*30.25%*	*58.20%*	*25.61%*	*36.41%*	*27.12%*
EBITDA margin (%)	*10.49%*	*13.59%*	*13.50%*	*14.05%*	*14.35%*
Depreciation	151	220	251	277	301
EBIT	**940**	**1,506**	**1,917**	**2,681**	**3,458**
Interest	605	583	570	570	570
Other income	21	17	24	32	39
Exceptional item (Forex)	-11	-426	-	-	-
Profit Before Tax	**367**	**1,366**	**1,371**	**2,142**	**2,927**
Tax	98	474	459	718	981
Effective Tax Rate (%)	*26.71%*	*34.71%*	*33.50%*	*33.50%*	*33.50%*
Reported PAT	**269**	**892**	**912**	**1,424**	**1,946**
YoY % growth	*43.82%*	*231.37%*	*2.24%*	*56.24%*	*36.65%*
PAT Margin (%)	2.59%	7.02%	5.68%	6.77%	7.43%
Adjusted PAT	**269**	**892**	**912**	**1,424**	**1,946**
YoY % growth	*49.93%*	*80.65%*	*95.64%*	*56.24%*	*36.65%*
Adj. PAT Margin (%)	*2.48%*	*3.67%*	*5.68%*	*6.77%*	*7.43%*
Reported EPS	2.63	8.71	8.91	13.92	19.02
Adj. EPS	2.52	4.55	8.91	13.92	19.02

Source: Company, KRChoksey research

Balance sheet:

Particulars (INR mn)	FY14	FY15	FY16E	FY17E	FY18E
Share capital	102	102	102	102	102
Reserves	2,209	2,936	3,688	4,952	6,739
Net worth	2,312	3,039	3,790	5,055	6,841
Long-term Loans	2,639	2,105	2,100	2,100	2,100
Short-term Loans	1,755	1,724	1,700	1,700	1,700
Total Loans	4,395	3,829	3,800	3,800	3,800
Deferred Tax Liability Net	218	265	265	265	265
Liabilities	**6,924**	**7,132**	**7,855**	**9,119**	**10,906**
Gross Block	3,943	4,295	4,830	5,230	5,730
Depreciation	558	782	1,033	1,310	1,611
Net Block	3,385	3,513	3,796	3,920	4,118
Capital work-in-progress	83	35	-	-	-
Inventories	2,290	2,282	3,300	4,325	5,383
Trade Receivables	2,318	3,758	4,180	5,478	6,818
Cash and bank balances	263	561	385	413	830
Loans and advances	455	458	660	807	1,005
Other Current assets	21	31	32	42	52
Total Current assets	5,347	7,090	8,556	11,065	14,088
Trade Payables	1,563	2,415	3,300	4,325	5,383
Other current liabilities & provisions	328	1,090	1,198	1,541	1,918
Total current liabilities	1,891	3,505	4,497	5,866	7,301
Net current assets	3,456	3,585	4,059	5,200	6,787
Total Assets	**6,924**	**7,132**	**7,855**	**9,119**	**10,906**

Source: Company, KRChoksey research

Cashflow:

Particulars (INR mn)	FY14	FY15	FY16E	FY17E	FY18E
PBT	367	1,366	1,371	2,142	2,927
Depreciation	151	220	251	277	301
(Inc)/Dec in working capital	-134	170	-650	-1,113	-1,171
Interest paid	605	583	570	570	570
Tax paid	-62	-427	-459	-718	-981
Cash flow from operations	928	1,911	1,082	1,159	1,647
Net cash from operations	928	1,911	1,082	1,159	1,647
Capital expenditure (-)	-321	-299	-500	-400	-500
Net cash after capex	607	1,612	582	759	1,147
Inc./(Dec.) in short-term borrowing	-235	-31	-24	-	-
Inc./(dec.) in long-term borrowing	387	-535	-5	-	-
Inc./(Dec.) in preference capital	-	-	-	-	-
Inc./(dec.) in total borrowings	152	-566	-29	-	-
Equity issue/(Buyback)	0	-	-	-	-
Interest paid	-605	-583	-570	-570	-570
Dividends paid	-18	-160	-160	-160	-160
Cash from Financial Activities	-472	-1,309	-759	-730	-730
Others	-0	-5	-	-	-
Opening cash	128	263	561	385	413
Closing cash	263	561	385	413	830
Change in cash	135	298	-176	28	417

Source: Company, KRChoksey research

Ratios:

Particulars (INR mn)	FY14	FY15	FY16E	FY17E	FY18E
Per share (INR)					
EPS	2.63	8.71	8.91	13.92	19.02
Adj. EPS	2.52	4.55	8.91	13.92	19.02
Book value	22.59	29.70	37.04	49.40	66.86
Valuation (x)					
P/E	13.97	17.53	19.90	12.74	9.32
P/E (Adj EPS)	14.58	33.55	19.90	12.74	9.32
P/BV	1.63	5.15	4.79	3.59	2.65
EV/EBITDA	7.23	10.95	9.94	7.28	5.62
EV/Sales	0.76	1.49	1.34	1.02	0.81
Return ratio (%)					
RoCE	14.02	21.93	25.25	30.27	32.49
RoE	11.16	15.34	24.05	28.18	28.45
RoIC	14.59	23.88	26.60	31.75	35.24
Profitability ratio (%)					
EBITDA margin	10.49%	13.59%	13.50%	14.05%	14.35%
EBIT margin	9.04%	11.86%	11.94%	12.74%	13.20%
PBT margin	3.53%	10.75%	8.54%	10.18%	11.17%
PAT margin	2.59%	7.02%	5.68%	6.77%	7.43%
Adj PAT margin	2.48%	3.67%	5.68%	6.77%	7.43%
Turnover ratio					
Asset turnover ratio (x)	1.50	1.78	2.04	2.31	2.40
Debtor days	81	108	95	95	95
Inventory days	80	66	75	75	75
Creditors days	55	69	75	75	75
Solvency ratio (x)					
Debt-equity	1.90	1.26	1.00	0.75	0.56
Interest coverage	1.55	2.59	3.36	4.70	6.07

Source: Company, KRChoksey research

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