Skipper - BUY

IIFL WEALTH & ASSET MANAGEMENT

Order inflow muted

Skipper's results were weaker than expected on account of slower growth in engineering business and polymer business impacted by demonetisation. Engineering business revenue slowed down to 12.5% yoy as order inflow has been weak 9M FY17 and execution was impacted by demonetisation. Both the key segments EBIT margins suffered due to lower than expected growth. Polymer business witnessed significant margin contraction due to lower sales growth, lower capacity utilization and incentives to dealers to push sales. Order book for engineering project segment stood at Rs.20.3bn (-7.8% YTD), which is 1.7x of FY16 engineering sales. Increased opportunities from PGCIL, SEB, TBCB, and renewable projects to support future growth in engineering segment. Company's Guwahati facility is expected to get commissioned by March' 2017 end. We have lowered our estimates based on muted order inflow and demonetization pain, leading to a downward revision in target price to Rs184. We maintain our Buy.

Lower than targeted growth

Excluding forex gains in Q3 FY16, engineering segment grew at 12.5% yoy, marginally lower than expected. This segment growth was largely driven by volume as realizations were flat. The management indicated that execution was impacted due to labor shortages. Management expects engineering business to grow by 10-15% and polymer business which is still suffering from demonetisation to grow by ~25%. Robust execution of the orders led to surprise performance from infrastructure segment with sales at Rs.265mn v/s Rs.74mn in Q3 FY16. Management expects this segment to grow by ~150% in this year. We have lowered our polymer business margins as revenue growth would be lower than earlier expectations and higher fixed costs of new capacities would eat into the segment's margins. Engineering segment growth would impacted by delay in ordering in domestic market.

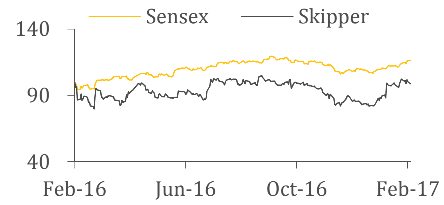
Analyst: Tarang Bhanushali, Rahul Jain

CMP (Rs) 155	12-mts Target (Rs) 184	Upside 18.7%

Stock data (As on February 08, 2017) — Sector: Industrials

Sensex:	28,290
52 Week h/l (Rs):	169 / 122
Market cap (Rs mn) :	15,844
Enterprise value (Rs mn):	18,086
6m Avg t/o (Rs mn):	7.4
FV (Rs):	1
Div yield (%):	0.9
Bloomberg code:	SKIPPER IB
BSE code:	538562
NSE code:	SKIPPER

Stock performance



Shareholding pattern (%)

Promoter	72.4
FII+DII	8.4
Others	19.2

Figure 1: Result table

Y/e 31 Mar (Rs m)	Q3 FY17	Q3 FY16	% yoy	Q2 FY17	% qoq
Net sales	**4,306**	**3,718**	**15.8**	**4,013**	**7.3**
Material costs	(2,843)	(2,322)	22.4	(2,528)	12.4
Personnel costs	(193)	(122)	58.4	(192)	0.6
Other overheads	(700)	(779)	(10.1)	(752)	(6.9)
Operating profit	**570**	**495**	**15.2**	**541**	**5.5**
OPM (%)	***13.2***	***13.3***	***(7) bps***	***13.5***	***(23) bps***
Depreciation	(76)	(61)	24.1	(72)	6.1
Interest	(177)	(153)	15.5	(150)	17.7
Other income	8	9	(7.1)	7	9.0
Extra ordinary items	-	-	-	15	-
PBT	**325**	**289**	**12.6**	**341**	**(4.4)**
Tax	(102)	(102)	(0.2)	(114)	(10.7)
Reported PAT	**223**	**187**	**19.5**	**226**	**(1.3)**

Source: Company, IIFL Research

Figure 2: Cost analysis

As a % of net sales	Q3 FY17	Q3 FY16	bps yoy	Q2 FY17	bps qoq
Material costs	66.0	62.5	356	63.0	302
Personnel Costs	4.5	3.3	120	4.8	(30)
Other overheads	16.3	21.0	(469)	18.8	(249)
Total costs	**86.8**	**86.7**	**7**	**86.5**	**23**

Source: Company, IIFL Research

Figure 3: Segmental results

Y/e 31 Mar (Rs m)	Q3 FY17	Q3 FY16	% yoy	Q2 FY17	% qoq
Infrastructure Projects	265	74	258.3	125	111.2
Engineering Projects	3,571	3,272	9.1	3,465	3.1
PVC Projects	470	371	26.6	437	7.7
Net Sales	**4,306**	**3,718**	**15.8**	**4,027**	**6.9**
EBIT					
Infrastructure Projects	35	14	151.7	17	115.0
Engineering Projects	466	481	(3.1)	484	(3.6)
PVC Projects	32	38	(14.5)	39	(17.5)
Total	**534**	**533**	**0.1**	**539**	**(1.0)**
EBIT Margins (%)			**bps yoy**		**bps qoq**
Infrastructure Projects	13.4	19.1	(568)	13.2	24
Engineering Projects	13.1	14.7	(165)	14.0	(91)
PVC Projects	6.9	10.2	(330)	8.9	(209)
Blended	**12.4**	**14.3**	**(194)**	**13.4**	**(99)**

Source: Company, IIFL Research

Conference call highlights

- Skipper's order book as on December 2016 stood at Rs.20.3bn, which gives good revenue visibility for the next 18 months. Domestic and export business contribution stands at ~75% and ~25%, respectively.
- Uptick in ordering activity in the sector is expected on the back of increased opportunities from PGCIL, SEB, TBCB, and renewable projects.
- Two large orders are getting extended and retendered leading to the delay in order inflow. PGCIL order of 800kv HVDC Raigarh-Pugalur project worth Rs.200bn went into re-tendering as it faced arbitration and the other project in North east worth Rs.100bn was deferred due to budget issues. In these projects, 25% weightage is for transmission tower orders.
- Deferment of the above orders led to weak order inflow during the quarter. Management expects healthy order inflow in Q4 FY17 and Q1 FY18.
- In export market, South America has the highest exposure. Skipper has increased its focus on developing economies such as Africa (Botswana and Tanzania) and Far East nations.
- Steel prices of flat product category have increased due to MIP, while long products price are more or less at similar level.
- Skipper has successfully designed and type tested 66kV monopoles. Management indicated that monopoles are gaining traction with strong demand expected in the near future.

- Plastic pipes segment was adversely affected by demonetisation with Q3 FY17 growth of 24% yoy v/s the targeted growth of 40-50%. Impact is expected to spill over in Q4 FY17.
- Skippers polymer business margin are lower than the market leaders as it offers product at ~2-4% discount compared to peers.
- Management expects next year to be driven by Polymer business both in revenue as well as margin front. This growth will be come on account of ramping up of manufacturing capacities leading to higher utilization levels coupled with lower working capital requirements, exploring newer markets, strengthening of dealers network and policy push by the government.
- New Guwahati plant (Unit-2) for manufacturing of T&D Steel Structures (capacity - 30,000MT) & PVC pipes fittings (capacity - 7000MT) which is expected to get commissioned by March' 2017 end. Company to incur Rs.700mn of total capex on this plant, of which most of it is spent.
- Currently, polymer plants are running at utilization levels of 55% and are expected to achieve higher levels going forward.
- Debt as of December 2016 stood at ~Rs.4.5bn, which is in line with FY16 levels. The company has regularly repaid its term loan debt as per schedule and working capital requirements have also been stable. So the increase in debt is attributed to the term loan required for construction of new Guwahati plant (Unit 2).
- Receivable days are expected to remain at similar levels in FY18.

Figure 4: Financial summary

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY18E
Revenues	12,702	15,062	17,432	20,556	24,354
yoy growth (%)	22.0	18.6	15.7	17.9	18.5
OPM (%)	13.6	14.6	13.7	14.0	14.2
Pre-exceptional PAT	466	951	1,009	1,330	1,708
Reported PAT	892	1,133	1,009	1,330	1,708
yoy growth (%)	231.0	27.0	(10.9)	31.7	28.5
EPS (Rs)	4.6	9.3	9.9	13.0	16.7
P/E (x)	30.4	14.9	15.7	11.9	9.3
Price/Book (x)	4.7	3.7	3.5	2.8	2.3
EV/EBITDA (x)	10.1	8.2	8.2	6.7	5.4
Debt/Equity (x)	1.3	1.2	1.0	0.8	0.6
RoE (%)	17.4	27.8	24.0	26.1	27.1

Source: Company, IIFL Research

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the ***Zee Business Market Excellence Awards 2016***.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

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In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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