Nalanda Securities Pvt. Ltd.

Skipper Ltd.

Buy

Date: -19-June-2017
CMP: Rs 201
TARGET: Rs 258
Upside: 28.4%

SENSEX	**31056**
NIFTY	**9588**
Eq. Cap. (` Crs)	**10.23**
Face Value (`)	**1**
M. Cap (` Crs)	**2065**
BSE Code	**538562**
NSE Code	**SKIPPER**
Financial Year	**Apr-Mar**
52-w H/L	**214/126**
Avg. Daily Vol.	**36080**
TTM EPS (`)	**10.9**
P/E (x)	**18.5**
BVPS (`)	**47.8**
P/BVPS (x)	**4.2**

Shareholding 31/03/2017	
Promoters	70.41%
FII	2.02%
DII	10.87%
Public	16.7%

W e e k e n d e r   R e p o r t

Company Profile

Incorporated in 1981, Skipper Ltd is the flagship company of the S.K. Bansal Group. Skipper Ltd is the world's largest integrated transmission tower manufacturing companies with angle rolling, tower, accessories & fastener manufacturing and EPC line construction. The company is also one of the largest producer of PVC pipes and fittings in West Bengal and in the eastern states.

Tapping the opportunity of North–Eastern states will be the growth driver

Powergrid has announced a massive investment opportunity in transmission towers in north eastern states of Rs 10,000 crore and also the private players are providing opportunity through TBCB route which gives huge potential for the company going forward. Also, if SEB's financial health is good then even they will participate in the growth story which will be an icing on the cake.

Exports will contribute a chunk in the revenue by tapping into growth opportunities into new markets

In FY17 exports contributed approx. 11% of revenue share compared to 41% in FY16. Going forward, management has guided to tap into new markets like south and south east asia, middle east etc. Recently they have got good opportunities from Philipinnes and Botswana(South Africa). Company is already in Latin America and is further looking to leverage growth opportunities going forward.

PVC business has the potential to grow by 50% post expansion

The PVC business recorded a healthy 32% growth in FY17 despite demonetization. The company has consistently expanded the capacity to 48,000 MTPA. Management has guided this capacity to go upto 1,00,000 MTPA by FY20. This provides huge opportunity and might even double the topline from PVC business going forward by FY20. We expect the business to grow by 50% in volume and value looking at the leadership of the business in eastern states and strong volume growth will drive the growth story.

Valuation

We expect Skipper Ltd to report Revenues of Rs 2138.3 crore for 2019. The Net Profit After Tax works out to Rs 155.3 crore and EPS works out to Rs 15.2. This when discounted 17 times translates into a target price of Rs 258 implying an upside of 28.4% from current valuations.

Company Profile

Incorporated in 1981, Skipper Ltd is the flagship company of the S.K. Bansal Group. Skipper Ltd is the world's largest integrated transmission tower manufacturing companies with angle rolling, tower, accessories & fastener manufacturing and EPC line construction. The company is also one of the largest producer of PVC pipes and fittings in West Bengal and in the eastern states.

Skipper Ltd is one of the world's largest Integrated Transmission Tower manufacturing companies with Angle Rolling, Tower, Accessories & Fastener manufacturing and EPC line construction. Skipper's manufacturing capacity is among the top 3 in India and among the top 10 in the world. Skipper's market reach spans across 20 countries around the globe from South America, Europe, Africa, the Middle East, South and Southeast Asia and Australia. Within India, it is a preferred manufacturer of choice for customers pan India, from J&K to Tamil Nadu and from North East India to Gujarat.

Skipper is also the largest producer of PVC pipes in West Bengal and already has market share of 10% in Eastern India. Skipper offers a huge range of pipes and fittings, which are used in different areas such as Plumbing, Sewage, Agriculture and Borewell sectors.

Business Model Structure

Skipper Ltd

- **Transmission Products Segment**
- **Polymer products(PVC Pipes and Fittings)**
- **Infra Projects Segment**

Investment Rationale:

North East-Provides huge untapped opportunity for investments in transmission towers

Powergrid announcement to invest Rs 10,000 crore in the north east states opens up the door for the company going forward. The peer of the company Kalpataru – Techno JV has already bagged a order of Rs 1000 crore and Sterlite bagging Rs 800 crore order represents the investments undergoing in the north eastern states. Management is confident of bagging orders in the coming years ahead. Even private players are coming up with new projects and offering through TBCB(Tariff Based Competitve Bidding) route opens up a new arena for the company.

We believe there is lot of traction seen in the north east as powergrid announcing capex of Rs 10,000 crore and TPCB will provide huge growth for the company to be capitalized on. Even SEB's(State Electricity Boards) will open up new projects and will be an icing on the cake for the transmission tower segment and for the company.

Powergrid capex augurs well for transmission towers business

The 13th five year plan in transmission lines envisages an outlay of Rs 1.69 trillion in transmission lines. Out of Rs 1.69 trillion, Rs 500 billion is for the transmission towers. This massive investment will give the trigger to the company because company has the 2nd largest transmission towers manufacturing capacity in India.

Not only Powergrid but also the state TRANSCO's will participate and will come out with huge business for the company. We believe there is yet lot to be played out in the manufacturing towers business and thus gives us immense confidence in the company growth story. We believe going forward company should able to clock a revenue growth of 15-20% from the transmission towers business.

Monopoles towers provide better margins and good revenue visibility

Monopoles are self-supporting tubular structures that carry transmission lines from 11 kVA to 400 kVA. Monopoles are the only solution for setting up transmission lines in a crowded urban setting as they require less aerial and low ground consumption. The company already has an installed capacity of 15,000 MTPA for monopoles and is one of the three companies in India producing them.

Monopoles are extensively being used for new telecom capacities and 4G network expansion. In the past, the company has been providing monopoles to Reliance Jio and other telecom players. Recently, PGCIL and SEB's have also started using monopoles and if further traction is witnessed in monopoles, Skipper can raise its capacity for monopoles to 40,000 MTPA from 15,000 MTPA from its existing units in West Bengal. Margins from monopoles are higher than 20% and additional revenues from this segment will aid profitability.

However, management said the monopoles industry is very small currently of about just Rs 50 crore but definitely has a good future going ahead.

PVC pipes and fittings business to show strong volume growth post expansion

The company's PVC pipes business captured 10% of market share in eastern India market. The company enjoy market leadership in West Bengal, Bihar with growing presence in Jharkhand, Orissa and all seven north eastern states of india. Under Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), a planned investment exceeding Rs 50,000 crore over the next five years, is expected to positively impact the PVC pipes and accessories industry, including skipper.

In FY16 and FY15 the PVC pipes and fittings business recorded 77-78% growth on a small base. However, in FY17 due to demonetization, the business recorded only 30% growth. We believe in FY18 this business will grow to approx. 50% in terms of both volume and value and we expect the utilization levels to go upto 65%.

CPVC pipes segment – Should able to grab a major share in the value added products segment in near future.

Currently the CPVC is about 15% of the polymer products business. Currently, they have 3,000 MTPA of installed capacity. CPVC pipes have higher realizations and higher margins of about 30-40%. The company has technological tie – up with Sekisui Japan. The company procures the CPVC compound from the Japanese player so it has the best of know how in CPVC pipes and these is used by the company which then sells in the domestic market.

We believe going forward, the conventional piping system will be replaced with CPVC pipes and this will turn up the opportunity for the company growth going forward from the CPVC pipes segment.

Exporing the untapped new emerging markets will drive the growth from exports going forward

In FY17 exports is 10% of revenue share compared to 45% in FY16. This drop was largely due to no major export order completed. Management believes going forward exports will again come back to track and we will see traction from the exports. Geographical diversification is key for exports, as order flows from any one country are very sporadic in nature. A presence across several geographies is important to maintain a sustainable growth in exports.

We believe going forward in FY18 exports to form 20-30% of the revenue and should able to give 15-20% of revenue growth. Recently, company has entered into new markets of Botswana(Southern Africa) and Philipinnes and they are see a good business from there. Management have plan to enter the new markets of South East Asia, Bangladesh, Myanmar, Vietnam which will drive the volume growth.

Latest Quarterly Results

For the quarter ended March 2017, company registered a growth of 10.2% in sales to Rs 583.7 crore compared to Rs 529.8 crore in the previous quarter YoY. OPM grew by 180bps from 13.9% to 15.6% . OP rise 23.6% to Rs 92 crore vs Rs 74.5 crore. Other income increased from Rs 1.1 crore to Rs 82 lakh and interest cost declined by 20.4% to Rs 12.4 crore vs 15.6 crore. Depreciation stood higher at Rs 10 crore compared to Rs 6.32 crore. PBT went up 32.4% to Rs 69.7 crore vs 52.7 crore. Tax increased by 1.2% to Rs 14.25 crore after which PAT went up 46% to Rs 52.8 crore vs Rs 36.1 crore.

FY17 Consolidated Results

For FY17, sales increased by 15.6% to Rs 1698 crore vs Rs 1469.4 crore correspondingly. OPM reduced by 20bps from 14.6% to 14.4% which saw OP rise by 10.8% to Rs 247.7 crore vs Rs 223.6 crore. Other income declined from 5.1 crore to Rs 4.6 crore and interest cost fell by 7.2% to Rs 61.1 crore vs 57 crore. Depreciation increased by 31% to Rs 31.5 crore vs 24.1 crore, PBT increased by 8.9% to Rs 155 crore vs Rs 142.4 crore. Tax decreased by 12% to Rs 40.1 crore vs Rs 45.7 crore after which PAT went up by 17.2% to Rs 111.5 crore vs 95.1 crore.

Risks and Concerns:

1. Slow execution of orders.
2. Slowdown or a downturn in transmission towers industry.
3. Slowdown or a downturn in PVC pipes and fittings industry.
4. Low capacity utilization in the PVC pipes and fittings business.

Revenue growth of 15-20% going forward

We believe going forward skipper should able to clock 15-20% of revenue growth on the back of traction from transmission towers in north east and massive expansion in PVC pipes and fittings.

Raw material pricing has no impact on the operating margins

For transmission towers the major raw material is steel billets which is a pass through to the customers. Even the company has advantage of minimal logistic cost of about Rs 400-500 per tonne compared to others players in the industry. In the polymer products business, PVC pipes are crude derived and even if the crude pricing increase still it is a pass through to the consumers.

Profit and Loss financial Results:

	2019	2018	2017	201603 (12)	201503 (12)	201403 (12)	201303 (12)
	Projected	Projected	Reported	Reported	Reported	Reported	Reported
Total Income	2138.3	1909.2	1704.6	1516.7	1289.8	1102.1	966.1
Total Expenditure	1828.2	1632.3	1456.9	1284.5	1060.8	981.8	874.4
Operating Profit	310.0	276.8	247.7	232.2	229.0	120.3	91.8
OPM	**14.5%**	**14.5%**	**14.5%**	**15.3%**	**17.8%**	**10.9%**	**9.5%**
Interest	55.0	58.0	61.1	64.8	70.4	68.5	51.4
Depreciation	48.0	40.0	31.6	24.1	22.0	15.1	12.6
Profit Before Tax	207.0	178.8	155.1	143.3	136.6	36.7	27.8
Tax	51.8	44.7	38.6	48.2	47.4	9.8	9.1
Net Profit	155.3	134.1	116.4	95.1	89.2	26.9	18.7
Equity Share Capital	10.2	10.2	10.2	10.2	10.2	10.2	9.7
Earnings Per Share	15.2	13.1	11.4	9.3	8.7	2.6	1.9

Valuation

We expect Skipper Ltd to report Revenues of Rs 2138.3 crore for 2019. The Net Profit After Tax works out to Rs 155.3 crore and EPS works out to Rs 15.2. This when discounted 17 times translates into a target price of Rs 258 implying an upside of 28.4% from current valuations.

For more information, contact
Director: Mr. Ketan Dedhia Head of Research: Mr. Nirav Asher Fundamental Analyst: Mr Aditya Khetan Technical Analyst : Mr. Mayur Shah Equity Dealers : Rajiv Mehta, Sandip Chheda, Chintan Upadhyay Primary Market & MF (IPO) : Neeta Shenoy
NALANDA SECURITIES PVT LTD: 9. Roseland, 2nd floor, 180 Waterfield Road, Near National College, Bandra (West), Mumbai-400 050 Tel: 26401957/58 26550214/15 Fax : 26401953 Email: nalanda@vsnl.net Website: www.nalandaonline.com

Nalanda Securities Pvt Ltd is a SEBI Registered Research Analyst having registration no.INH000004617.