

18 May 2016

Skipper

*Margin-driven earnings growth; Buy*Rating: **Buy**

Target Price: ₹183

Share Price: ₹142

Despite Skipper slightly missing our Q4 FY16 revenue estimates, its earnings, at ~₹361m, were in line with our expectations (~₹351m), aided by healthier-than-expected margins and a lower effective tax rate. We maintain our Buy rating as the company's cost competitiveness (due to its locational advantage) would ensure that it remains a beneficiary of investments in Power T&D. Additionally, its asset-light business approach for polymer products signifies management's averseness to capital intensity. These, we believe, would keep the profitable growth momentum going.

Respectable growth despite soft commodity: Notwithstanding soft commodity prices, the company could deliver respectable, ~6% yoy, revenue growth owing to the combined effect of healthy volumes in its engineering products division and ~29% yoy growth in polymer products. Infrastructure projects, as expected, was weak, declining ~47% yoy, as the company is trading cautiously to avoid any cash drag projects.

Profitability improves for engineering products: Despite the revenue being further skewed toward the lower-margin polymer products, the EBITDA margin improved ~12bps yoy. The margin expansion was driven by engineering products. The polymer-products' margin was down ~290bps yoy, to ~9.9%, and the engineering-products' margin rose ~164bps yoy, to ~14.5%.

Earnings aided by lower effective tax rate: The lower effective tax rate (~31.4%; ~35.7% a year ago) helped the company post ~19% earnings growth. Earnings was also aided by contained finance cost (at ~2.9% of sales; ~3.1% a year ago). Lower finance costs, despite an increase in borrowings, is indicative of the lower effective cost of funding

Valuation: Adjusting for FY16 actuals, we lower FY17e EPS ~1%, and raise FY18e EPS ~1%. On the revised estimates, the stock trades at 11.6x FY18e EPS of ₹12.2. We value it at a PE of 15x FY18e to arrive at a target of ₹183 (up from ~₹182). **Risk.** Any significant delay in order awarding.

Quarterly results (YE Mar)	Q4 FY15	Q4 FY16	% yoy	FY15	FY16	% yoy
Sales (₹ m)	4,999	5,297	6.0	12,708	14,881	17.1
EBITDA (₹ m)	687	734	6.9	1,731	2,011	16.1
EBITDA margin (%)	13.7	13.9	11.8bps	13.6	13.5	-11.1bps
Interest (₹ m)	154	155	1.2	583	570	-2.2
Depreciation (₹ m)	63	63	-0.3	220	241	9.7
Other income (₹ m)	1	11	1,254.3	17	52	212.1
Exceptional item (₹m)	-	-	-	420	181	-56.8
PBT (₹ m)	471	526	11.8	1,366	1,433	4.9
Reported. PAT (₹m)	303	361	19.4	892	951	6.7

Source: Company

Key data	SKIPPER IN / SKIP.BO
52-week high / low	₹220 / ₹116
Sensex / Nifty	25705 / 7870
3-m average volume	\$0.3m
Market cap	₹14bn / \$216.4m
Shares outstanding	102m

Shareholding pattern (%)	Mar'16	Dec'15	Sep'15
Promoters	72.4	72.4	72.4
- of which, Pledged	-	-	-
Free Float	27.6	27.6	27.6
- Foreign Institutions	0.2	1.1	-
- Domestic Institutions	3.2	0.0	0.0
- Public	24.3	26.5	27.6

Estimates revision (%)	FY17e	FY18e
Sales	-1.6	-0.4
EBITDA	0.7	1.6
EPS	-1.1	0.5

Financials (YE Mar)	FY17e	FY18e
Sales (₹ m)	17,777	20,502
Net profit (₹ m)	1,024	1,245
EPS (₹)	10.0	12.2
Growth (%)	33.0	21.6
PE (x)	14.1	11.6
PBV (x)	3.1	2.5
RoE (%)	24.2	24.0
RoCE (%)	23.5	24.5
Dividend yield (%)	1.1	1.1
Net debt / equity (x)	1.0	0.8

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Net revenues	10,415	12,708	14,881	17,777	20,502
Revenue growth (%)	15.7	22.0	17.1	19.5	15.3
- Oper. expenses	9,313	10,976	12,870	15,364	17,704
EBIDTA	1,102	1,731	2,011	2,413	2,798
EBITDA margins (%)	10.6	13.6	13.5	13.6	13.6
- Interest	605	583	570	628	640
- Depreciation	151	220	241	266	300
+ Other income	21	17	52	38	35
- Tax	98	474	482	532	647
Effective tax rate (%)	26.7	50.1	38.5	34.2	34.2
+ Associates / (minorities)	-	-	-	-	-
Adjusted PAT	269	472	770	1,024	1,245
+ Extraordinary items	-	420	181	-	-
Reported PAT	269	892	951	1,024	1,245
Adj. FDEPS (₹ / sh)	2.6	4.6	7.5	10.0	12.2
Adj. FDEPS growth (%)	43.8	75.2	63.3	33.0	21.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Share capital	102	102	102	102	102
Reserves & surplus	2,209	2,936	3,713	4,553	5,614
Net worth	2,312	3,039	3,815	4,655	5,716
Total debt	4,395	3,829	4,682	4,803	4,857
Minority interest	-	-	-	-	-
Def. tax liab. (net)	218	265	315	315	315
Capital employed	6,924	7,132	8,812	9,772	10,888
Net fixed assets	3,456	3,535	4,241	4,498	4,711
Intangible assets	12	12	11	9	7
Investments	-	-	-	-	-
- of which, Liquid	-	-	-	-	-
Working capital	3,193	3,024	4,062	4,946	5,691
Cash	263	561	498	320	480
Capital employed	6,924	7,132	8,812	9,772	10,888
Working capital (days)	112	87	100	102	101
Book value (₹ / sh)	22.6	29.7	37.3	45.5	55.9

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

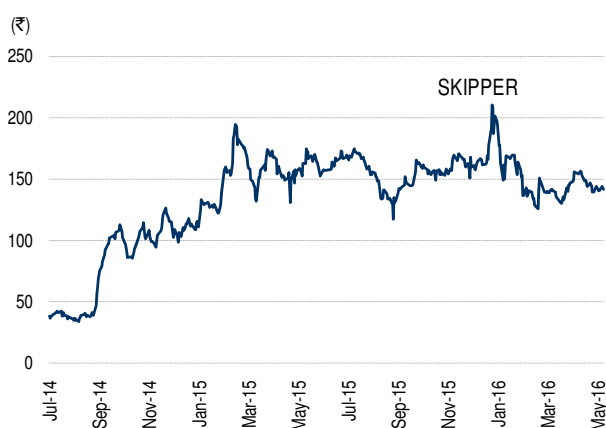
Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Adjusted PAT	269	892	951	1,024	1,245
+ Non-cash items	151	220	241	266	300
Cash profit	420	1,112	1,192	1,290	1,546
- Incr. / (decr.) in WC	134	-170	1,039	884	745
Operating cash-flow	286	1,281	154	406	801
- Capex	321	299	946	521	511
Free cash-flow	-35	982	-792	-115	290
- Dividend	18	160	172	184	184
+ Equity raised	-0	-5	-3	0	0
+ Debt raised	188	-519	903	121	55
- Investments	-	-	-	-	-
- Misc. items	-	-	-	-	-
Net cash-flow	135	-122	-244	-178	160
+ Op. cash & bank bal.	128	263	561	498	320
Cl. Cash & bank bal.	263	561	498	320	480

Source: Company, Anand Rathi Research

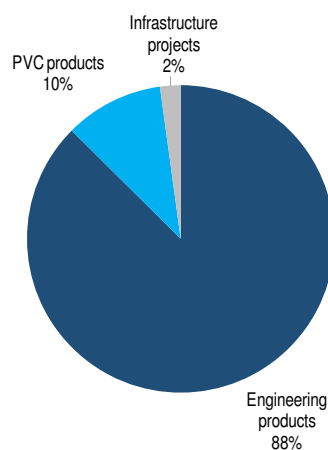
Fig 4 – Ratio analysis @ ₹142

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	53.8	30.7	18.8	14.1	11.6
Cash P/E (x)	34.5	21.0	14.3	11.2	9.4
EV / EBITDA (x)	16.9	10.3	9.3	7.9	6.7
EV / sales (x)	1.8	1.4	1.3	1.1	0.9
P/B (x)	6.3	4.8	3.8	3.1	2.5
RoE (%)	12.3	17.6	22.5	24.2	24.0
RoCE (%)	14.5	21.7	22.9	23.5	24.5
Dividend yield (%)	0.1	0.9	1.0	1.1	1.1
Dividend payout (%)	6.7	33.9	22.3	18.0	14.8
Net debt / equity (x)	1.8	1.1	1.1	1.0	0.8
Debtor (days)	81	108	91	99	99
Inventory (days)	80	66	61	67	67
Payables (days)	55	69	52	61	61
Interest cover (x)	1.6	2.6	3.2	3.5	4.0
Fixed asset T/O (x)	3.0	3.6	3.5	3.9	4.3

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – FY16 Revenue break-up


Source: Company

Result / Concall Highlights

- For Q4 FY16, the polymer products division registered healthy ~29% revenue growth due to the capacity addition. The engineering products division could see ~6% growth, driven by volume growth as soft commodity prices constrained value growth. Infrastructure projects was weak owing to a limited order backlog. Regarding segment profitability, engineering products markedly improved (~164bps yoy, because of lower raw material costs) whereas polymer products was down ~290bps yoy on account of the under-absorption of fixed costs (fresh capacities yet to stabilise).
- For FY16, the engineering products division (adjusted for forex gains) registered ~15% yoy revenue growth and ~119bps expanded margin. The segment growth was entirely driven by volumes (up 16% to 157,469 tonnes). In polymer products, though the company failed to meet its guidance of ~80% yoy growth, a 70% yoy growth is no less inspiring. Polymer products too saw volume-driven growth (up 77% to 20,107 tonnes).

Fig 7 – Segment-wise highlights

(YE: Mar)	Q4 FY15	Q4 FY16	% yoy	Q3 FY16	% qoq	FY15	FY16	% yoy
Segment revenue (₹ m)								
Engineering products	4,413	4,659	5.6	3,272	42.4	11,348	13,079	15.3
Polymer products	434	558	28.6	371	50.1	897	1,525	70.0
Infrastructure projects	152	81	-47.2	74	9.0	462	277	-40.2
Total	4,999	5,297	6.0	3,718	42.5	12,708	14,881	17.1
Segment margins (%)								
Engineering products	12.8	14.5	-	14.7	-	12.2	13.4	-
Polymer products	12.8	9.9	-	10.2	-	11.5	10.8	-
Infrastructure projects	8.2	5.5	-	19.1	-	23.8	15.5	-
Blended	12.7	13.9	-	14.3	-	12.6	13.2	-

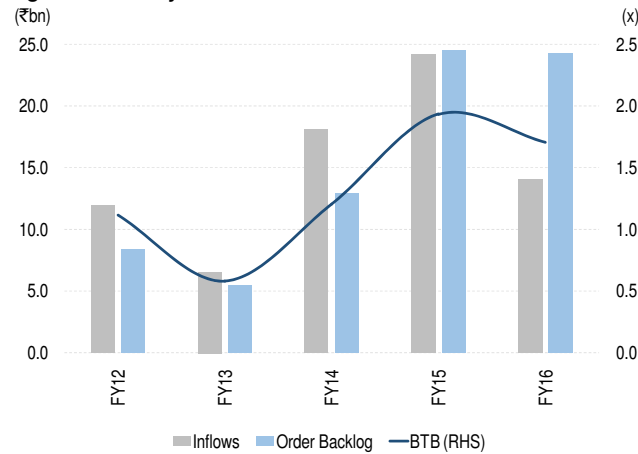
Source: Company
 Note: Figures adjusted for forex gain of ~₹181m in FY16 and ~₹420m in FY15

- Management expects growth momentum to continue to as it guides to 15-20% growth in engineering products and ~70% in polymer products in FY17. Infrastructure projects, management believes, would return to growth as, subsequent to recent order additions, the backlog is ~₹1.5bn.
- A significant jump in export revenues (to ~₹6.6bn, against ~₹0.5bn in FY15) took the exports share in revenues to ~44%. Management expects domestic revenues to account for the lion's share in FY17 as the order backlog is skewed in favour of domestics.
- The closing order backlog of ~₹24.3bn was down 1% yoy due to lower inflows during the year. Almost 85% of inflows for the year, of ~₹14bn, were received in Q4 FY16.
- Nearly 51% of the closing order backlog was from PGCIL, followed by other domestic orders (~24%). The share of exports was ~25%.
- In terms of inflows, management identifies unopened bids of ~₹12bn. Additionally, it is eyeing a 20% share in the ~₹25bn of transmission tower orders expected in north-east India under the NERPSIP. This is

in addition to others that it is eyeing. However, it is unlikely to chase any orders merely for better revenue assurance. Profitability would be a key determinant.

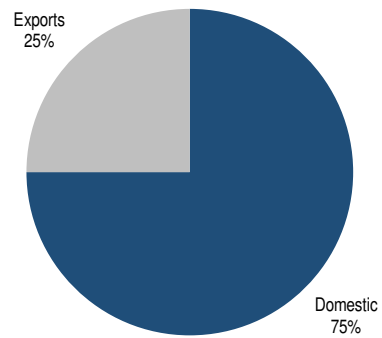
- In polymer products, the company commissioned three new facilities. This took capacity at year-end to 35,000 tonnes. Management expects this to increase to 41,000 tonnes on the commissioning of the Hyderabad plant by end-Q1 FY17.
- Management expects ~11% margins in the polymer products division.
- Of the ~₹1bn increase in working capital, management talked about the pending receipt of MODVAT excise duty credit on exports to amount to ~₹0.4bn. Management expects to receive this soon.
- Net debt during the year was up ~₹0.9 bn on account of increase in working capital and capex of ~₹0.9bn. On 31st Mar'16, net debt stood at ~₹4.2bn.
- Capex for FY17 and FY18 is envisaged at ~₹0.5bn per annum.

Fig 8 – Ordinary inflows lowers revenue assurance



Source: Company

Fig 9 – OB break-up - Exports down from ~46% to ~25%



Source: Company

Earnings Revision and Valuation

Adjusting for FY16 actuals, we trim FY17e EPS ~1% and raise FY18e EPS ~1%. On our revised estimates, the stock trades at 11.6x FY18e EPS of ₹12.2. We value it at a PE of 15x FY18e to arrive at a target of ₹183 (up from ~₹182).

Fig 10 – Change in estimates

₹ m	Original Estimates		Revised Estimates		Change (%)	
	FY17e	FY18e	FY17e	FY18e	FY17e	FY18e
Revenue	18,063	20,591	17,777	20,502	-1.6	-0.4
EBITDA	2,396	2,753	2,413	2,798	0.7	1.6
EPS (₹)	10.1	12.1	10.0	12.2	-1.1	0.5

Source: Anand Rathi Research

Fig 11 – PE band



Source: Bloomberg, Company, Anand Rathi Research

Risk

- Any significant delay in order awarding.

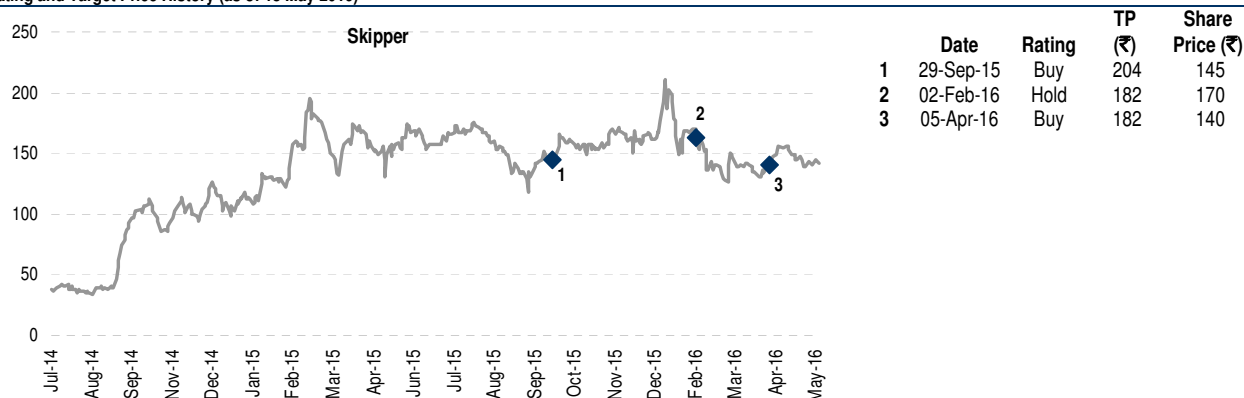
Appendix

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