

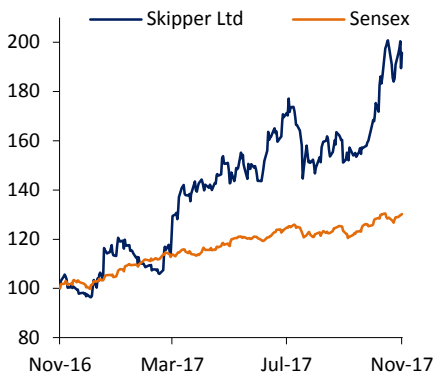
Sector	Capital Goods
Recommendation	BUY
Upside	27%

Stock Data	
Sensex	33,603
52 Week h/l (₹):	292 / 126
Market cap (₹ Cr) :	2,845
BSE code:	538562
NSE code:	SKIPPER
FV (₹):	1
Div yield (%):	0.6

Shareholding Pattern			
	Mar-17	Jun-17	Sep-17
Promoters	70.4	70.4	70.4
DII+FII	12.4	13.1	13.9
Individuals	17.2	16.5	15.8

Source: www.bseindia.com

Share Price Trend



Prices as on 27/11/2017

Analyst-Milan Desai
research@iifl.com

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Attractive play on power transmission investment in India

Skipper derives ~84% of its revenues from engineering products segment, which caters to Power Transmission and Distribution (T&D) sector. Envisaged spends of ₹2.6 lakh cr over next five years for transmission capex in India augurs well for the company. Its order book to TTM segment sales as on FY17 was 1.7x and inflows of ~₹790cr in H1FY18 provide strong revenue visibility in the near term. Additionally, Skipper's Managements intends to capitalize on opportunities arising from 100% electrification of Indian Railways and ramp up in solar capacities in India, thus driving segment revenue.

Polymer business to accelerate

The polymer products business (high growth, contributed 12% to FY17 revenue) has seen deceleration in recent quarters owing to external factors (demonitisation, GST). Skipper has major presence in Eastern India and has adopted an asset light model to expand footprints in other Indian geographies. New value added products coupled with market share gains from unorganized sector would assist in resuming the high growth trend for the polymer business.

Outlook & Valuation

Considering the key positives, we expect 18.5% revenue CAGR over FY17-20E for engineering products segment. Over FY17-20E, polymer products segment is expected to post revenue CAGR of 23.8% and overall revenue CAGR is estimated at 19.0%. Aided by lower depreciation and interest outgo, we expect PAT to improve to ₹212cr in FY20E from ₹111cr in FY17. In order to explore ₹5,000cr worth opportunities in the Indian drip irrigation industry, Skipper has announced a joint venture with Metzerplas (Israel) to make Drip Irrigation Systems. We have a BUY rating on the stock with target price of ₹352 based on 17x its FY20E EPS of ₹20.7.

Financial Summary

Standalone ₹cr	FY16	FY17	FY18E	FY19E	FY20E
Revenue	1,506	1,703	2,049	2,466	2,873
Growth (%)yoy	14.7	13.1	20.3	20.3	16.5
EBITDA Margin (%)	14.6	14.4	13.4	13.6	13.8
PAT	95	111	129	170	212
EPS	9.3	10.9	12.6	16.6	20.7
Growth (%) yoy	6.7	17.2	15.5	31.6	25.2
P/E (x)	29.9	25.5	22.1	16.8	13.4
EV/EBITDA (x)	14.9	13.2	11.9	9.7	8.1
ROE (%)	27.8	25.5	23.5	25.2	25.5
ROCE (%)	16.9	17.2	16.6	18.6	19.8

Source: Company, IIFL Research

Revenue drivers in place for Skipper

Power Transmission and Distribution (T&D)capex

The sub-transmission network in India has historically seen lower investments vis-à-vis generation sector and national transmission network. According to the 13th Five Year Plan, government is considering investment of ₹2.6 lakh cr in the overall T&D segment. This presents the sector an opportunity of ₹1.0-1.3 lakh cr over the period of five years. PGCIL has pegged the value of intra-state transmission work at ₹1.5 lakh cr and is expected to invest ₹0.9 lakh cr over the period of three years (as per media reports).

Exhibit 1: Order estimates of PGCIL ~₹25,000cr for FY18E

(₹ Cr)	Overall Orders	Transmission Orders	% of Overall
FY15	20,287	6,377	31.4
FY16	16,737	4,938	29.5
FY17	28,507	5,134	18.0
YTD FY18	6,410	2,864	44.7

Source: PGCIL, IIFL Research

Railway electrification

Indian Railways intends to achieve 100% electrification of lines, wherein 33,000 route kms need to be electrified, as per PGCIL. At an average cost of ₹1.0-1.1cr/km, the opportunity for the industry works out to ~₹35,000cr over FY18-22E.

Solar structures

Solar structures will provide a good opportunity for companies like Skipper, as the government intends to ramp up solar capacity from 10,000 MW to 1,00,000 MW. Per MW capacity will require 42-45 metric tons (MT) of solar structure. At realizations of ~₹70,000/MT, the overall opportunity works out to ₹26,000-28,000cr for the industry.

Company Background

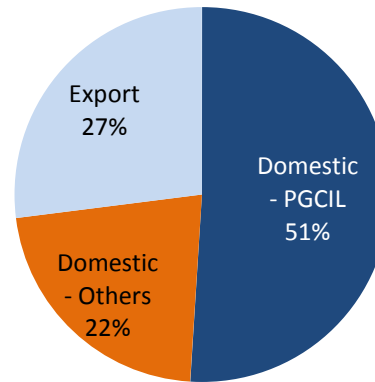
Skipper Ltd is one of the world's leading and India's largest manufacturers of Transmission & Distribution Structures (Towers & Poles). It is the largest producer of Plastic Pipes & Fittings in West Bengal, the fastest growing and second largest in Eastern India. Refer exhibit 2 for business segments.

Exhibit 2: Segment highlights - FY17

	Engineering Products	Polymer Products	Infra Projects
Capacity (MTPA)	2,30,000	51,000	--
Product Range	<ul style="list-style-type: none"> ✧ Power Transmission Tower ✧ Power Distribution Poles ✧ Monopoles ✧ MS & High Tensile Angles ✧ Solar Structures ✧ Fasteners ✧ Tower Accessories 	<ul style="list-style-type: none"> ✧ UPVC Pipes ✧ CPVC Pipes ✧ SWR Pipes ✧ HDPE Pipes ✧ Fittings 	<ul style="list-style-type: none"> ✧ Transmission Line EPC ✧ Underground Utility laying by HDD ✧ Water EPC
Revenue Contribution	83.6%	11.6%	4.8%

Source: Company, IIFL Research

Exhibit 3: FY17 order book break-up (₹2,589cr)



Source: Company, IIFL Research

Exhibit 4: Segmental assumptions

	FY17	FY18E	FY19E	FY20E
Revenue (₹ cr)				
Engineering Products	1,424	1,714	2,039	2,368
Polymer Products	198	245	320	376
Infra Projects	81	89	107	129
EBITDA (%)				
Engineering Products	15.1	13.9	14.2	14.4
Polymer Products	10.2	10.0	10.0	10.0
Infra Projects	13.8	13.8	13.8	13.8

Source: Company, IIFL Research

Recommendation Parameters for Fundamental/Technical Reports:

- Buy – Absolute return of over +10%
- Accumulate – Absolute return between 0% to +10%
- Reduce – Absolute return between 0% to -10%
- Sell – Absolute return below -10%

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For Research related queries, write at research@iifl.com

For Sales and Account related information, write to customer care: cs@iifl.com or call on 91-22 4007 1000