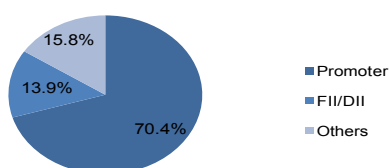


Key Share Data

Face Value (INR)	1.0
Equity Capital (INR Mn)	102.4
Market Cap (INR Mn)	28,405.8
52 Week High/Low (INR)	292/127
6 months Avg. Daily Volume (BSE)	44,715
BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPER:IN

Shareholding Pattern (as on 31st Sept 2017)


Source: Company

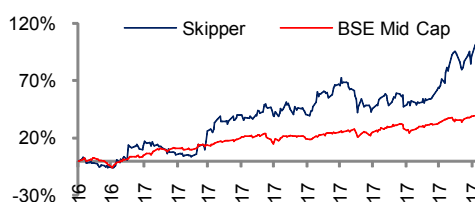
Key Financials (INR Million)

Particulars	FY16	FY17	FY18E	FY19E
Net Sales	14,623.5	16,785.7	20,160.1	23,398.4
Growth (%)	15.1%	14.8%	20.1%	16.1%
EBITDA	1,753.8	2,216.5	2,661.1	3,157.9
PAT	951.3	1,115.0	1,061.5	1,395.3
Growth (%)	6.8%	17.2%	-4.8%	31.4%
EPS (INR)	9.3	10.9	10.4	13.6
BVPS (INR)	37.3	48.3	56.8	73.9

Key Financials Ratios

Particulars	FY16	FY17	FY18E	FY19E
P/E (x)	14.9	25.5	26.7	20.3
P/BVPS (x)	3.7	5.7	4.9	3.8
Mcap/Sales (x)	1.0	1.7	1.4	1.2
EV/EBITDA (x)	10.6	14.9	12.6	10.3
ROCE (%)	13.4%	15.0%	15.5%	16.7%
ROE (%)	27.8%	25.5%	19.7%	20.9%
EBITDA Mar (%)	12.0%	13.2%	13.2%	13.5%
PAT Mar (%)	6.5%	6.6%	5.3%	6.0%
Debt - Equity (x)	1.2	0.8	0.8	0.5

Source: Company, SKP Research

1 Yr price performance Skipper vis-à-vis BSE Small Cap

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Company Background

Skipper Limited, promoted by Mr S K Bansal of Kolkata, is India's third largest transmission tower manufacturing company and tenth largest in the world, having production capacity of 2,30,000 MTPA. It also manufactures PVC pipes for water transportation in which it has aggressive growth plans.

Investment Rationale
Top-line to grow at a CAGR of ~18% over FY17-19E

During Q2FY18, Skipper reported net sales of Rs 5,156.2 mn, registering growth of ~31.9% y-o-y basis due to healthy execution in the engineering segment. Engineering vertical grew by 29% y-o-y to Rs 4,663.7 mn, driven by robust volume growth and better realisations. Polymer segment declined by 7% y-o-y impacted by GST related disruptions. Management commentary indicates dealer re-stocking has commenced from November 2017.

Going forward, we expect Skipper sales to grow at a CAGR of ~18% during FY17-19E on the back of robust demand from Power Grid (PGCIL) and 1.4x capacity addition in the PVC pipe business, resulting into better capacity utilization and higher sales volume.

Engineering Product Business: Strong order book; expansion underway to encash substantial growth opportunity

- Skipper has a strong order book of ~Rs 26 bn (around 1.8x FY17 sales) of which, domestic and export order is 73% & 27% respectively (51% of Skipper's order book is made up of PGCIL orders). During the quarter, order inflows worth Rs 4.3 bn were accrued from PGCIL, SEB's and private sector players. The company has marked its entry in railway electrification projects – L1 in order worth Rs160 mn.
- Skipper is forming a JV with Metzterplas, a manufacturer of drip Irrigation solutions from Israel, with an eye on a potential Rs 50 bn market opportunity. The company has forayed into manufacturing of solar structures and will carry it out from its existing Uluberia plant. While trial productions are underway, the management plans to tie up with developers as against bidding for EPC contracts themselves.

PVC Pipes Business to grow exponentially, backed by 1.4x capacity addition

- Post expansion, capacity of PVC pipes will increase from ~51,000 MTPA (including captive unit) to ~71,000 MTPA by FY19 registering sales growth of ~40% CAGR over the FY17-19E, backed by 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.

Margins to stabilize at ~13%+ with better operating leverage

- During Q2FY18, EBITDA margins contracted by 557 bps y-o-y to ~13.2% backed by 519 bps decline in the engineering segment's EBIT margin to 13% and higher other expenses due to rise in export mix leading to higher freight and packaging cost.
- Post expansion of PVC pipe segment, Skipper will become a pan India player, which would lead to higher overhead spending, thereby restricting EBITDA margins at level of ~13%+ in the near term. The company has reduced its debt in FY17 by Rs 680 mn even after incurring capex of Rs 750 mn and has a target to reduce its further by 200 mn in FY19E.

Valuation

- With higher order inflow from PGCIL, strong entry barriers, efficient working capital management, increasing PVC Pipes capacity through asset light model and enhancing return ratios, augurs well for Skipper. We have valued the stock on the basis of P/E of 20x of FY19E earning. Currently, at Rs 275, in view of a limited upside in the near future, pending triggers for afresh re-rating or a stronger conviction, we are neutral on the stock.

Exhibit: Q2 FY18 Result Review
Figs. in INR Million

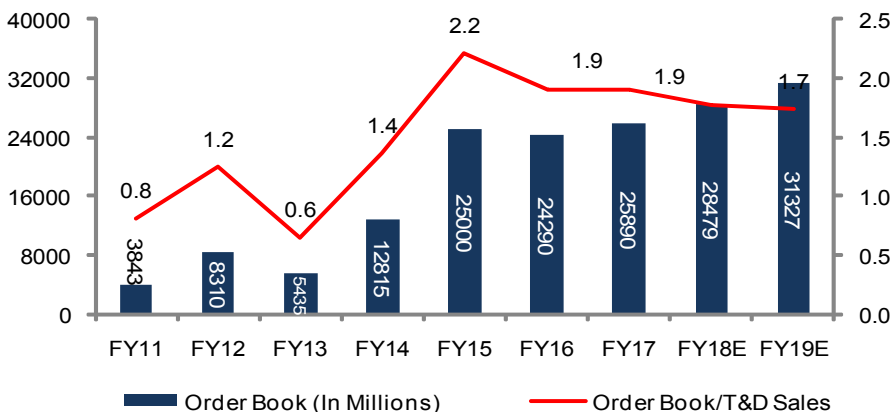
Particulars	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	6MFY18	6MFY17	YoY (%)
Net Sales	5,156.2	3,908.1	31.9%	3,988.3	29.3%	9,144.5	6,750.5	35.5%
Total Income	5,156.2	3,908.1	31.9%	3,988.3	29.3%	9,144.5	6,750.5	35.5%
Expenditure	4,473.3	3,172.7	41.0%	3,472.2	28.8%	7,945.5	5,621.8	41.3%
Material Consumed	3,854.9	3,019.0	27.7%	2,955.8	30.4%	6,810.7	4,958.9	37.3%
<i>(as a % of Total Income)</i>	74.8%	77.3%		74.1%		74.5%	73.5%	
Changes in inventories of Finished Goods	(397.4)	(491.0)	-19.1%	(485.7)	-18.2%	(883.1)	(660.3)	33.7%
<i>(as a % of Total Income)</i>	-7.7%	-12.6%		-12.2%		-9.7%	-9.8%	
Employees Cost	251.3	190.8	31.7%	210.0	19.7%	461.3	344.9	33.7%
<i>(as a % of Total Income)</i>	4.9%	4.9%		5.3%		5.0%	5.1%	
Other Expenses	764.5	453.9	68.4%	792.0	-3.5%	1,556.5	978.2	59.1%
<i>(as a % of Total Income)</i>	14.8%	11.6%		19.9%		17.0%	14.5%	
EBITDA	682.9	735.4	-7.1%	516.1	32.3%	1,199.0	1,128.7	6.2%
EBITDA Margin (%)	13.2%	18.8%	(557)Bps	12.9%	30 Bps	13.1%	16.7%	(361)Bps
Depreciation	120.5	71.7	68.0%	107.5	12.1%	228.0	139.3	63.7%
EBIT	562.4	663.7	-15.3%	408.6	37.6%	971.0	989.4	-1.9%
Other Income	3.3	7.4	-55.9%	7.5	-56.6%	10.8	15.2	-29.3%
Interest Expense	200.3	166.0	20.6%	168.6	18.8%	368.9	344.8	7.0%
Profit Before Tax	365.3	505.0	-27.7%	247.6	47.6%	612.9	659.9	-7.1%
Income Tax	133.1	173.8	-23.4%	87.8	51.6%	221.1	225.4	-1.9%
<i>Effective Tax Rate (%)</i>	36.4%	34.4%	-	35.5%	-	36.1%	34.1%	-
Profit After Tax (PAT)	232.2	331.2	-29.9%	159.8	45.4%	391.8	434.6	-9.8%
PAT Margins (%)	4.5%	8.5%	(397)Bps	4.01%	50 Bps	4.28%	6.44%	(215)Bps
Diluted EPS	2.3	3.2	-29.9%	1.6	45.4%	3.83	4.2	-9.8%

Source: Company Data, SKP Research

Order Book is expected to grow at a CAGR of ~10% over FY17-19E

Exhibit: Trends in Orderbook

PGCIL contributes ~51% of the total order book, domestic-others constitutes of ~22% and export for ~27%.

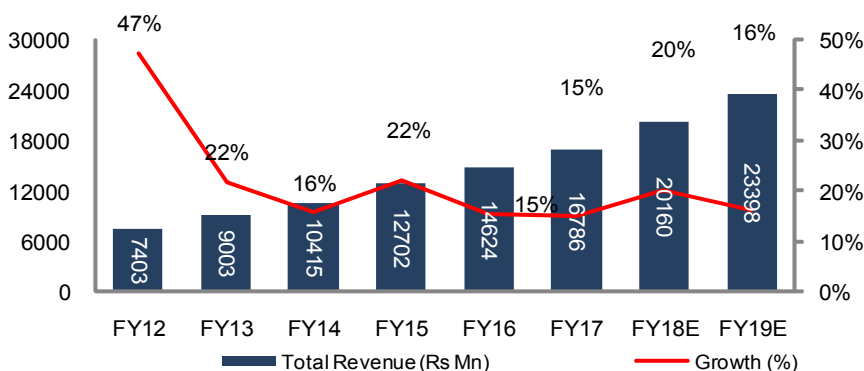


Source: Company, SKP Research

Top-line expected to grow at a CAGR of 16% over FY17-19E

Exhibit: Total Revenue & Revenue Growth (%)

Net Sales is expected to grow at a CAGR 18% to Rs 23,398 million over FY17-19E, backed by higher capacity utilization.

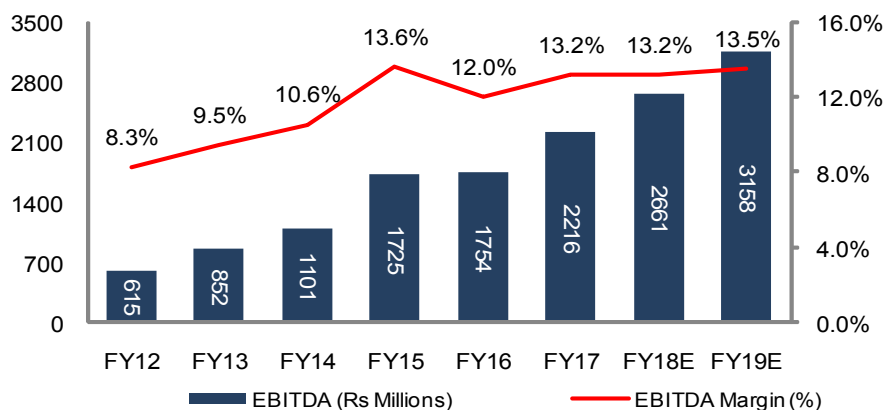


Source: SKP Research

Margins to stabilize at ~13%+ with better operating leverage

Exhibit: EBITDA & EBITDA Margin

EBITDA is expected to grow at a CAGR 19% to Rs 3158 million over FY17-19E

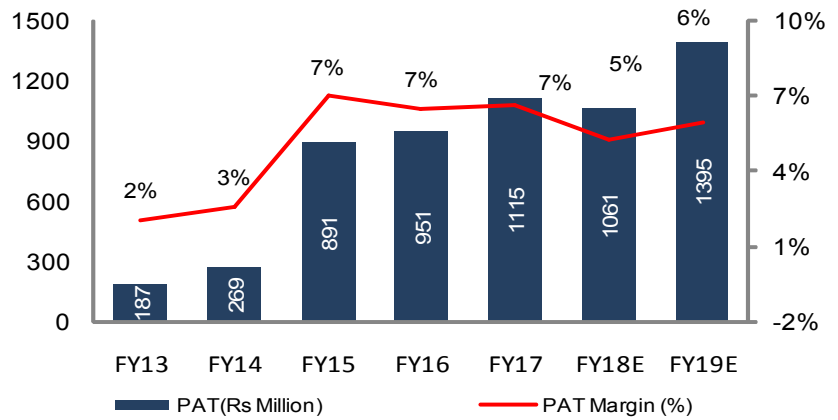


Source: SKP Research

PAT expected to grow at a CAGR of 14% over FY17-19E

Exhibit: PAT And PAT Margin (%)

PAT is expected to grow at a CAGR 12% percent to Rs 1395 million over FY17-19E

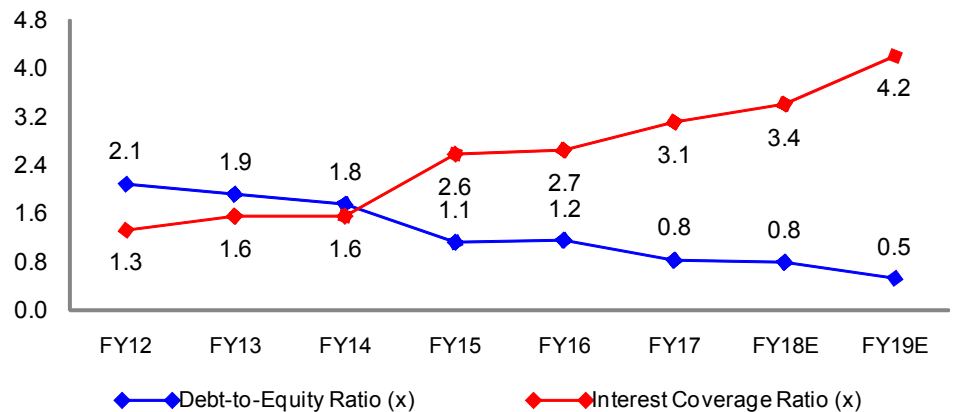


Source: SKP Research

D/E ratio improves to 0.5x in FY19E from a high of 1.9x in FY13

Exhibit: D/E Ratio and Interest Coverage Ratio

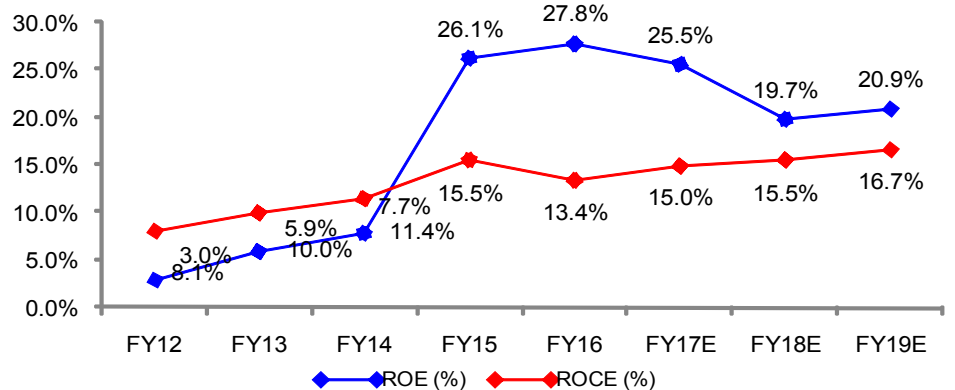
The company has reduced its debt in FY17 by Rs 680 mn even after incurring capex of Rs.750 mn. Debtor days also reduced on a y-o-y basis and led to D/E improving to 0.8 from 1.2 at the end of FY16. Company has a target to reduce its debt by Rs.200 mn in FY18.



Source:SKP Research

ROE to improve from 3% in FY12 to 21% by FY19E

Exhibit: Return Ratio



Source:SKP Research

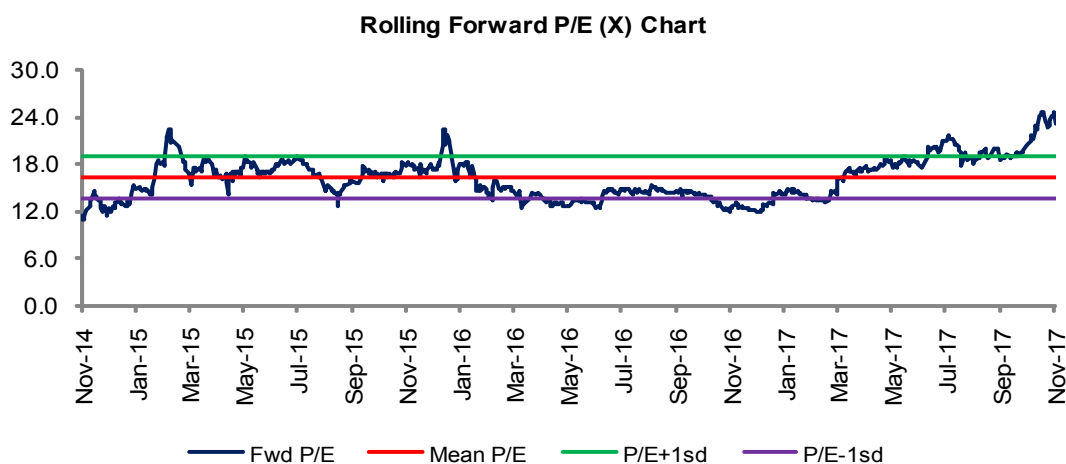
Key Concerns

- ▶ **Slowdown in order intake & execution:** Over the last couple of years, Skipper reported healthy top-line on the back of order pick-up from PGCIL and export market. However, going forward, any slowdown in transmission capex and lower than expected execution for the export market could adversely impact order book intake and could also impact our estimates for the engineering product segment, thereby, adversely affecting the overall performance.
- ▶ **Delay in capacity addition for PVC segment:** Skipper has an aggressive capacity expansion plan for the PVC business which will bring new execution and competition challenges. If the company resorts to aggressive pricing on its way to become a national player than it would be a margin dilutive proposition for Skipper.
- ▶ **Volatile Dollar Rupee Rate:** Export market contributes 27% of total order book. Any unfavorable USD-INR movement may have negative impact on the margins and profitability.

Valuations

- ▶ With Gol's thrust on improving T&D infrastructure (capex of Rs 2.6 tn over the 13th five year plan) in the country coupled with higher order inflow from PCGIL, strong entry barriers, efficient working capital management, prudent approach to reinforce orders, increasing PVC capacity through asset light model and enhancing return ratios augurs well for the company.
- ▶ We have valued the stock on the basis of P/E of 20x of FY19E earning. Currently, at Rs 275, in view of a limited upside in the near future, pending triggers for afresh re-rating or a stronger conviction, we are neutral on the stock.

Exhibit: Valuation Charts



Source: Company, SKP Research

Exhibit: Income Statement
Figures in INR Million

Particulars	FY16	FY17	FY18E	FY19E
Total Income	14,623.5	16,785.7	20,160.1	23,398.4
Growth (%)	15.1%	14.8%	20.1%	16.1%
Expenditure	12,869.7	14,569.3	17,499.0	20,240.5
Material Cost	9,484.9	10,908.0	12,983.1	15,021.8
Traded goods	-	-	-	-
Employee Cost	499.6	731.5	705.6	795.5
Admin & Other Exp.	2,885.2	2,929.7	3,810.3	4,422.3
EBITDA	1,753.8	2,216.5	2,661.1	3,157.9
Depreciation	241.2	315.5	440.2	450.4
EBIT	1,512.6	1,901.0	2,220.9	2,707.5
Other Income	490.4	275.2	38.3	44.5
Interest Expense	570.0	611.0	653.4	641.1
Profit Before Tax (PBT)	1,433.0	1,565.2	1,605.9	2,110.9
Income Tax	481.7	450.2	544.4	715.6
Profit After Tax (PAT)	951.3	1,115.0	1,061.5	1,395.3
Growth (%)	6.8%	17.2%	-4.8%	31.4%
Diluted EPS	9.3	10.9	10.4	13.6

Exhibit: Cash Flow Statement
Figures in INR Million

Particulars	FY16	FY17	FY18E	FY19E
Profit Before Tax (PBT)	1,433.0	1,565.2	1,605.9	2,110.9
Depreciation	57.9	315.5	440.2	450.4
Finance Costs	(43.6)	(26.6)	(15.0)	(15.0)
Chg. in Working Capital	1,106.1	2,204.6	2,278.3	2,291.5
Direct Taxes Paid	(454.9)	(452.3)	(544.4)	(715.6)
Other Charges	815.7	631.2	-	-
Operating Cash Flows	651.2	1,752.3	1,080.5	934.9
Capital Expenditure	(1,005.5)	(939.2)	(387.2)	(387.3)
Sale of Fixed Assets	32.5	0.6	-	-
Others	67.4	141.3	(0.1)	(0.8)
Investing Cash Flows	(905.6)	(797.3)	(386.5)	(388.1)
Changes in Equity	-	-	-	-
Inc / (Dec) in Debt	288.3	(914.2)	(300.0)	(300.0)
Dividend Paid (inc tax)	(160.1)	(172.4)	(163.7)	(173.9)
Financing Cash Flows	128.2	(1,086.6)	(463.7)	(473.9)
Chg. in Cash & Cash Eqv	(126.2)	(131.5)	230.3	72.9
Opening Cash Balance	286.4	160.2	28.6	258.9
Balances with Banks	337.8	220.7	-	-
Closing Cash Balance	498.0	249.3	258.9	331.8

Source: SKP Research

Exhibit: Balance Sheet
Figures in INR Million

Particulars	FY16	FY17	FY18E	FY19E
Share Capital	102.3	102.3	102.3	102.3
Reserve & Surplus	3,712.9	4,840.6	5,709.8	6,900.7
Shareholders Funds	3,815.2	4,943.0	5,812.1	7,003.0
Total Debt	4,402.6	4,158.6	4,666.8	3,962.2
Deferred Tax (Net)	314.8	391.0	391.0	391.0
Total Liabilities	8,532.6	9,492.5	10,869.9	11,356.2
Net Block inc. Capital WIP	4251.9	4786.0	4937.3	5107.1
Deferred Tax (Net)	-	-	-	-
Non-Current Assets	7,650.7	8,625.0	10,605.5	11,170.5
Inventories	2,499.9	3,681.8	4,486.5	4,802.3
Sundry Debtors	3,723.7	3,729.7	4,776.2	4,839.5
Cash & Bank Balance	498.0	249.3	258.9	331.8
Other Current Assets	21.8	101.3	121.0	134.0
Loans & Advances	907.4	862.9	962.9	1,062.9
Current Liabilities & Prov	3,369.9	3,918.4	4,673.0	4,921.5
Total Assets	8,532.6	9,492.5	10,869.9	11,356.2

Exhibit: Ratio Analysis

Particulars	FY16	FY17	FY18E	FY19E
Earning Ratios (%)				
EBITDA Margin (%)	12.0%	13.2%	13.2%	13.5%
PAT Margins (%)	6.5%	6.6%	5.3%	6.0%
ROCE (%)	13.4%	15.0%	15.5%	16.7%
ROE (%)	27.8%	25.5%	19.7%	20.9%
Per Share Data (INR)				
Diluted EPS	9.3	10.9	10.4	13.6
Cash EPS (CEPS)	11.7	14.0	14.7	18.0
BVPS	37.3	48.3	56.8	73.9
Valuation Ratios (x)				
P/E	14.9	25.5	26.7	20.3
Price/BVPS	3.7	5.7	4.9	3.8
EV/Sales	1.3	2.0	1.7	1.4
EV/EBITDA	10.6	14.9	12.6	10.3
Dividend Yield (%)	1.0%	0.5%	0.6%	0.6%
Balance Sheet Ratios				
Debt - Equity	1.2	0.8	0.8	0.5
Current Ratio	1.3	1.4	1.5	1.7
Fixed Asset Turn. Ratios	1.3	1.3	1.4	1.4

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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Disclosure of Interest Statement

Analyst ownership of the stock	NIL
Served as an officer, director or employee	NIL

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