



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Q3 FY18 Result Update@ Dalal&Broacha

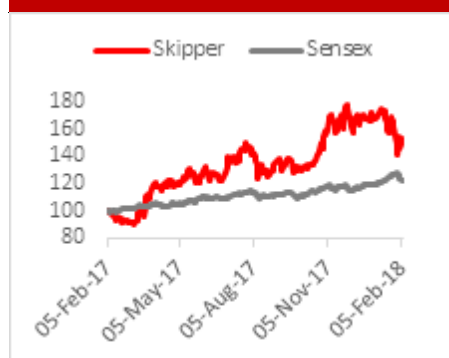
BUY

Current Price	233
Target Price	329
Upside	41%
52 Week Range	292/133

Key Share Data

Market Cap (Rs.mn)	250
Market Cap (US\$ bn)	0.4
No of o/s shares (mn)	102
Face Value	1
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	1.22
BSE Code	538562
NSE Code	SKIPPER
Bloomberg	SKIPPER IN

Price performance



% Shareholding

	Dec-18	Sept-17
Promoters	70.35	70.35
Public	13.95	13.95
Others	15.76	15.76
Total	100	100

Q3 performance in-line with estimates, driven by engineering segment

Skipper reported 33% y-o-y topline growth driven by 10% increase in realisation and 23% volume growth. Engineering segment reported better than expected growth of 29% y-o-y while PVC segment reported lacklustre growth of 6%. EPC segment revenue remained stable. - EBITDA margin for the quarter reduced by 80bps y-o-y to 13% due to increase in raw material prices. EBIT margin for engineering segment reported at 13% while for PVC segment at 7%. - Finance cost fell by 8% y-o-y due to rating upgrade from CRISIL. PAT improved by 32% y-o-y.

Other highlights

Order inflow of Rs525cr: Skipper secured orders worth Rs525cr during the quarter as against Rs450cr secured during Q3FY17. The company secured Rs86cr order from Reliance Jio for telecom tower and Rs150cr order from Telangana SEB. Order book stands at Rs2530cr (1.6x FY17 sales). International order book is 15% of total orders.

CWD Certification to promote entry in North America: Skipper cleared Canadian Welding Bureau (CWB) audit which is mandatory requirement to supply structure steel to many in US and Canada. This enables Skipper to supply power transmission towers and poles to the North American market.

Rating upgrade reduced Finance cost: CRISIL upgraded rating of Skipper to AA- on the bank facilities which is likely to reduce Skipper's finance cost by 1%.

Railways & Solar contribution to increase: Management is optimistic on improving contribution from railways and solar segments. It targets to increase contribution from these segments to 15% of revenue by FY19E.

PVC segment outlook: Post GST PVC segment growth rate has gone down to single digit. The company is facing pricing pressure in this segment due to lacklustre demand growth putting pressure on margin. Management expects outlook to improve for the segment in FY19E. However, further capacity expansion will be undertaken post utilization of current capacity.

Capex to drive earnings: capacity utilization for engineering products division is at 90%. Company has undertaken capex of Rs850mn for FY19E including Rs300mn for PVC segment. Company plans to increase engineering product's segment capacity through brownfield expansion by 15% in FY19E which will facilitate them to cater order book. As ramp up of PVC segment has been below expectations as division reaches optimum utilization Skipper will increase capacity for the segment.

Guwahati tax benefits: The company set up 30000MT engineering products capacity and 7000MT PVC pipes capacity in Guwahati which enjoys tax benefit. This is likely to reduce effective tax rate by 10%.

Valuation: Although PVC segment's topline has disappointed as engineering product's segment has performed better than expectations we maintain our estimates. We expect engineering segment to grow at 15% CAGR over FY17-20E and PVC segment to grow at a CAGR of 35% on low base of FY18E. We expect company to post EPS of Rs12, 15.7 and Rs20 over FY18E, FY19E and FY20E. At current price the stock is trading at 18x FY18E, 15x FY19E and 12x FY20E earnings. EV/EBITDA is at 8.8x FY19E and 7.2x FY20E EBITDA. **We recommend 'BUY' with target price of Rs329 which offers 41% upside potential.**

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY16	15,062.2	26.0	2,192.5	14.6	951.3	91.7	9.3	24.7	24.9	23.5
FY17	17,029.6	13.1	2,460.4	14.4	1,115.0	17.2	10.9	21.1	22.6	23.6
FY18E	19,959.0	17.2	2,730.8	13.7	1,279.7	14.8	12.5	18.4	21.4	23.0
FY19E	23,507.0	17.8	3,109.6	13.2	1,543.7	20.6	15.1	15.2	21.2	24.0
FY20E	27,813.0	18.3	3,736.4	13.4	1,962.2	27.1	19.2	12.0	21.9	25.7


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Q2FY18 Result Analysis

Particulars (Rs Mn)	Q3FY18	Q2FY18	Q-o-Q %	Q3FY17	Y-o-Y %	9mFY18	9mFY17	Y-o-Y %
Net Sales	5,664.2	5,156.2	10%	4,251.3	33%	14,808.7	11,001.8	35%
Other Income	3.3	3.3	1%	8.1	-59%	14.1	23.3	-40%
Total Revenue	5,667.5	5,159.5	10%	4,259.4	33%	14,822.8	11,025.1	34%
Expenses								
Cost of Materials Consumed	3,692.6	3,854.9		2,947.4		10,503.4	7,906.4	
Changes in inventory of FG and WIP	209.7	(397.4)		(104.8)		(673.4)	(765.0)	
Total Raw Material Cost	3,902.3	3,457.5	13%	2,842.6	37%	9,830.0	7,141.3	38%
Gross Profit	1,765.2	1,701.9	4%	1,416.7	25%	4,992.8	3,883.8	29%
Employee benefit Expense	235.5	251.3	-6%	193.7	22%	696.8	538.6	29%
Other Expenses	785.6	764.5	3%	631.7	24%	2,342.2	1,609.9	45%
Total Expenses	4,923.5	4,473.3	10%	3,668.1	34%	12,869.0	9,289.9	39%
EBITDA	744.1	686.1	8%	591.3	26%	1,953.8	1,735.2	13%
Depreciation	117.6	120.5	-2%	76.2	54%	345.6	215.4	60%
EBIT	626.5	565.6	11%	515.2	22%	1,608.2	1,519.8	6%
Finance Costs	176.3	200.3	-12%	190.0	-7%	545.1	534.8	2%
PBT	450.2	365.3	23%	325.1	38%	1,063.1	985.1	8%
Tax Expense	158.2	132.9	19%	103.1	54%	379.0	324.4	17%
PAT	292.0	232.4	26%	222.1	31%	684.1	660.6	4%
EPS	2.9	2.3		2.2		6.7	6.5	

Segmental Performance	Q3FY18	Q2FY18	Q-o-Q %	Q3FY17	Y-o-Y %	9mFY18	9mFY17	Y-o-Y %
Segment Revenue								
Engineering Products	4,863.3	4,633.7	5%	3,784.4	29%	13,148.3	9,982.1	32%
Polymer Products	539.9	427.8	26%	507.6	6%	1,400.8	1,387.4	1%
Infrastructure Products	261.0	94.7	176%	262.9	-1%	598.6	496.4	21%
Total	5,664.2	5,156.2	10%	4,554.9	24%	15,147.7	11,865.9	28%
Segment Results								
Engineering Products	638.8	606.0	5%	481.3	33%	1,684.3	1,470.7	15%
EBIT%	13%	13%		13%		13%	15%	
Polymer Products	36.0	28.2	28%	31.5	14%	95.1	107.5	-12%
EBIT%	7%	7%		6%		7%	8%	
Infrastructure Products	32.0	11.3	185%	36.8	-13%	72.7	70.3	3%
EBIT%	12.3%	12%		14.0%		12%	14%	



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