

Visit Note

Buy

Industry	Construction
CMP (Rs)	155
FY18E Price Target (Rs)	191
52 Week H/L (Rs)	212/122
Volumes (BSE+NSE)* (mn)	1.6
Shares O/S (mn)	102.3
Market Cap (Rs mn)	16001.6
Free Float (%)	27.7
Bloomberg	SKIPPER IN
Reuters	SKIP.BO

*Three month average

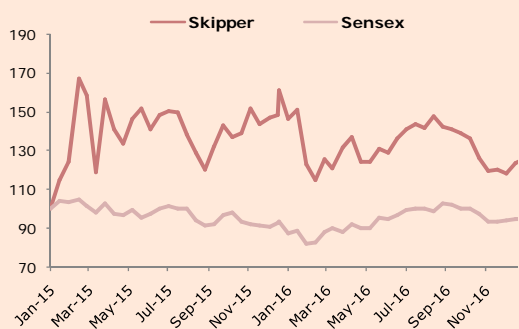
Share Holding Pattern (30/9/2016)

Particulars	Shares (mn)	Holding (%)
Promoters	74.0	72.3
FIIIs	1.4	1.4
DIIIs	17.2	19.0
Others	7.4	7.3
Total	102.3	100.0

Source : BSE

Financial Highlights

(Rs Mn)	FY16	FY17E	FY18E
Revenues	15,062.2	17,313.9	20,033.5
Revenue Growth	14.7%	14.9%	15.7%
EBITDA	2,192.5	2,432.8	2,795.9
EBITDA Margin	14.6%	14.1%	14.0%
PAT	951.3	1,104.2	1,311.6
EPS (Rs)	9.3	10.7	12.7
P/E (x)	16.7	14.5	12.2
EV/EBITDA (x)	9.1	8.2	7.2
RoE	24.9%	23.4%	22.6%
RoCE	23.7%	23.5%	23.7%



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We met the management of Skipper Ltd (Skipper), which helped us to understand more about the industry dynamics of the Transmission & Distribution industry and business prospects of the company. With a healthy order book, strong execution impetus & favorable commodity price regime, we are convinced of strong topline growth & margin to remain steady at current levels. Skipper highlighted the growing importance of States in their businesses as PGCIL's ordering would further strengthen its order book. Success of the UDAY scheme is also a positive move for Skipper. Going ahead, the order book is expected to remain at 1.8-2.0x of revenues, which provides a strong revenue visibility for the short term. However, we expect Skipper to grow at a CAGR of 15.3% in revenues and 7.4% in PAT over FY16-FY18E.

Company Profile

Skipper, established in 1981, evolved into one of the world's leading manufacturers for Transmission & Distribution Structures (Towers, Poles & Monopoles) in the Engineering Products segment, a leading and respected brand in the Plastic Water Pipes sector, as well as a trusted partner for executing critical Infrastructure EPC projects. It's PVC pipes are basically used in sub distribution of water, plumbing and sewage purposes. Skipper presence across 20 countries around the globe.

Within India, Skipper is a preferred manufacturer and has several customers on a pan India basis, from J&K to Tamil Nadu and from North East India to Gujarat. Currently it has an installed capacity of 200000 tones in Tower & Poles capacity and 41000 tones in PVC Pipes & Fitting capacity. Currently, its plants are operating at 90% utilization; hence Skipper needs to enhance it's capacities once every two years. **By FY18E, tower capacity is expected to reach 230000 TPA and PVC Pipes including fittings capacity is expected reach up to 48000 TPA.** The capex for expansion would be Rs 600-700mn, funded partly through debt and internal accruals.

Investment Rationale

Healthy order book & focus on international expansion

The company's engineering products order book to sales stands at 1.8x of FY16 revenues and is well diversified between domestic (75% of orders) and international orders (25% of orders). The sector has started witnessing uptick in both ordering and execution and the company expects growth to remain strong and gain further pace with increased participation opportunities from Power Grid (51% of orders), SEBs, TBCB projects and Renewable projects. Also, the company is increasingly focusing on developing new market geographies to further expand its international reach, through increased participation in the overseas exhibitions and sales conferences for creating new channels for business networking.

International market; Key area of growth

The company has grown its export order book from 4-5% of the total order book few years ago, to 25% currently (Rs 6bn). Skipper is present in 20 countries and is actively looking to expand its presence in the international markets, and has laid down a target of reaching 50 countries in the coming years. While it is already exporting to Latin America, the company has bid for large projects in South East Asia and the African markets and expects to secure significant business from these countries. Apart from it has also presence in Europe, Middle East and Australia.

Backward integration enables cost optimization

Skipper purchases Steel Billets and Blooms, from this they make MS and HT Angles. This backward integration enables cost optimization and much lower exposure to commodity prices fluctuations. The entry into new geographies with new products and solutions would enable the company to maintain its operating margins. Skipper's CPVC Pipes have a tie up with Japanese company Sekisui, which provides chlorinated PVC compounds for manufacturing CPVC Pipes and is sold under the Dura Stream brand. This JV helps to fetch the higher realizations, which help to maintain the operating margins.

Monopoles; The future growth driver

Skipper is one of the first companies to introduce Monopoles in India. Monopoles are one of the least intrusive and easiest towers to erect. They are becoming the most popular structures in the wireless communication and power transmission industries. Adding towers in urban areas has become difficult in recent years, as more stringent zoning laws and lack of available land, make the process longer and more expensive. Due to monopoles requiring smaller footprints and being more aesthetically pleasing, wireless carriers and power T&D companies in India are expected to increasingly turn to these structures to deploy in densely populated areas.

Skipper has Monopole application up to 400kv in Transmission towers and for heights up to 40 meters, which are also used in telecom tower. **Skipper already has an installed capacity of 15,000 MTPA for Monopoles and only three companies produce Monopoles in India.** Monopoles are extensively being used for new telecom capacities and 4G network expansion. Skipper stands to take full advantage of its first mover advantage into Monopoles as the demand for it escalates in India.

Outlook and Valuations

Skipper has a strong order book (1.8x FY16 revenues), a decent margin profile and a healthy future growth prospects. We believe the company has necessary capabilities to increase its market share in a competitive environment in tower manufacturing. Skipper is possibly one of the lowest cost producers and post expansion, it would become the largest tower manufacturing company in India. With the strategy of tying up with multiple players for a single bid, Skipper stands a strong chance to increase market share for the tower supply segment though it also links its prosperity to the execution capabilities of the EPC player. With controlled working capital and low cost manufacturer across all segments, Skipper enjoys healthy return ratios. While the company has ventured into the EPC segment, it plans to be very selective and would enter only if it is profitable enough.

At CMP of Rs 155, the stock is trading at 14.5x and 12.2x of FY17E and FY18E earnings estimate of Rs 10.7 and Rs 12.7 respectively. Similarly, on EV/EBITDA basis, the company trades at 8.2x and 7.2x of FY17E and FY18E respectively. We have valued the company based on the EV/EBITDA methodology, assigned a target EV/EBITDA multiple of 8.5x on FY18E, and arrived at a value per share of Rs 191. On an annualized basis, the stock gives an upside of 18.7% from the current levels. Hence, we recommend a **"BUY"** rating on Skipper Ltd.

Income Statement

Y/E March (Rs mn)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total Revenues	7412.3	9003.5	10415.1	13128.0	15062.2	17313.9	20033.5
<i>YoY Growth</i>	-	21.5%	15.7%	26.0%	14.7%	14.9%	15.7%
Raw Material Cost	5582.2	6828.6	7600.5	8797.3	9484.9	11086.4	12928.2
Employee Cost	153.9	194.6	273.9	341.0	499.6	706.9	756.3
Other Expenses	947.5	1127.5	1438.5	1838.0	2885.2	3087.8	3553.1
Total expenses	6,683.6	8,150.8	9,312.9	10,976.3	12,869.7	14,881.1	17,237.6
EBITDA	728.8	852.7	1,102.1	2,151.6	2,192.5	2,432.8	2,795.9
<i>EBITDA Margin</i>	9.8%	9.5%	10.6%	16.4%	14.6%	14.1%	14.0%
Depreciation	117.1	125.7	150.8	219.9	241.2	252.2	279.2
EBIT	611.7	727.0	951.3	1,931.7	1,951.3	2,180.6	2,516.7
Interest	473.4	463.6	605.4	582.6	570.0	591.8	624.3
Other Income	7.8	14.2	21.3	16.6	51.7	59.4	65.3
PBT	146.1	277.6	367.2	1,365.7	1,433.0	1,648.1	1,957.7
(-) Tax	47.1	90.5	98.1	474.0	481.7	543.9	646.0
PAT	99.0	187.1	269.1	891.7	951.3	1,104.2	1,311.6
<i>YoY Growth</i>	-	89.1%	43.8%	231.4%	6.7%	16.1%	18.8%

Balance Sheet

Y/E March (Rs mn)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Equity Capital	360.4	97.4	102.3	102.3	102.3	102.8	102.8
Share Warrants Outstanding	-	-	-	-	0.5	-	-
Reserves	1274.9	1963.5	2209.4	2936.3	3712.5	4617.8	5692.6
Net Worth	1,635.4	2,060.9	2,311.8	3,038.7	3,815.2	4,720.6	5,795.4
Total Borrowings	2994.1	3976.4	4062.3	3431.0	4402.6	4552.6	4802.6
Deffered Tax Liability	110.7	181.2	217.8	264.7	314.8	314.8	314.8
Other Long Term Liabilities	7.4	15.7	9.7	2.1	13.5	13.5	13.5
Total Liabilities	4,747.6	6,234.3	6,601.5	6,736.5	8,546.1	9,601.4	10,926.3
Gross Block	3,116.5	3,674.9	3,943.2	4,295.0	4,855.9	5,605.4	6,205.4
Less: Acc. Depreciation	288.8	412.8	558.0	782.3	1003.5	1255.8	1535.0
Net Block	2,827.7	3,262.1	3,385.2	3,512.7	3,852.4	4,349.6	4,670.4
Capital Work in Progress	20.5	35.9	82.9	34.7	399.5	350.0	250.0
Other Noncurrent Assets	7.0	8.7	21.1	30.6	21.8	21.8	21.8
Inventories	1689.3	2377.9	2290.1	2282.4	2499.9	3083.3	3842.0
Debtors	1449.4	1548.7	2318.2	3757.8	3723.7	4506.4	5214.2
Cash	85.7	128.2	263.1	560.9	498.0	610.8	769.9
Loans and Advances	614.4	507.2	454.6	457.8	907.4	474.4	548.9
Current Assets	3,838.8	4,562.0	5,326.0	7,059.0	7,628.9	8,674.8	10,375.0
Current Liabilities	1911.1	1622.9	2188.3	3692.4	3163.3	3320.5	3842.0
Provisions	35.3	11.5	25.4	208.1	193.2	474.4	548.9
Net Current Assets	1,892.4	2,927.6	3,112.3	3,158.5	4,272.4	4,880.0	5,984.1
Total Assets	4747.6	6234.3	6601.5	6736.5	8546.1	9601.4	10926.3

Cash Flow Statement

Y/E March (Rs mn)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
CASH FLOW FROM OPERATING ACTIVITIES							
PBT Before Extraordinary Items	146.1	277.6	367.2	1365.7	1433.0	1648.1	1957.7
Adjustments for:							
Depreciation	117.1	125.7	150.8	219.9	241.2	252.2	279.2
Interest Expenses	367.5	463.6	605.4	582.6	570.0	591.8	624.3
Other Adjustments	-7.6	-483.3	17.1	29.4	0.0	0.0	0.0
Operating Profit before WC Changes	623.1	383.6	1,140.4	2,197.6	2,244.2	2,492.2	2,861.3
Change in Working Capital	575.2	-955.5	-84.8	-121.3	-474.6	(494.7)	(945.0)
Cash Generated from Operations	1,198.3	(571.9)	1,055.6	2,076.3	1,769.6	1,997.5	1,916.2
Direct Taxes (Net)	-43.5	-47.0	-48.2	-338.1	-481.7	(543.9)	(646.0)
Net Cash from Operating Activities	1,154.8	(618.9)	1,007.3	1,738.2	1,287.9	1,453.6	1,270.2
CASH FLOW FROM INVESTING ACTIVITIES							
Net Purchase of Fixed Assets	-548.6	-575.9	-321.4	-310.4	-925.7	(700.0)	(500.0)
Interest Received	0.0	11.7	2.5	3.5	0.0	-	-
Dividend Received on Investments	-8.0	0.0	0.0	0.0	0.0	-	-
Other Investment Activities	6.5	5.5	2.5	-9.5	0.0	-	-
Net Cash used in Investing Activities	-550.0	-558.7	-316.4	-316.4	-925.7	(700.0)	(500.0)
CASH FLOW FROM FINANCING ACTIVITIES							
Equity Share Capital	-	250.0	-	-	-	0.5	-
Net Borrowings	-232.6	1,005.2	57.5	-530.0	324.9	150.0	250.0
Interest Paid	-367.5	-	-602.2	-576.0	-570.0	(591.8)	(624.3)
Dividend and Dividend Tax Paid	12.35	(35.2)	-11.4	-17.95	-160.1	(199.4)	(236.8)
Other Adjustments	-	-	-	-	(20.0)	-	-
Net Cash from Financing Activities	(587.7)	1,220.1	(556.1)	(1,123.9)	(425.2)	(640.7)	(611.1)
Net Change in Cash & Equivalents	17.1	42.5	134.9	297.9	(63.0)	112.9	159.1
Cash & Equivalents as at the beginning	68.7	85.7	128.2	263.1	560.9	498.0	610.8
Cash & Equivalents as at the end	85.7	128.2	263.1	560.9	497.9	610.8	769.9

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Growth							
Sales	-	21.5%	15.7%	26.0%	14.7%	14.9%	15.7%
EBITDA	-	17.0%	29.3%	95.2%	1.9%	11.0%	14.9%
PAT	-	89.1%	43.8%	231.4%	6.7%	16.1%	18.8%
Margins							
Gross Margins	24.7%	24.2%	27.0%	33.0%	37.0%	36.0%	35.5%
EBITDA	9.8%	9.5%	10.6%	16.4%	14.6%	14.1%	14.0%
PAT	1.3%	2.1%	2.6%	6.8%	6.3%	6.4%	6.5%
Per Share Ratio							
EPS (Rs)	1.4	1.9	2.6	8.7	9.3	10.7	12.7
Book value (Rs)	4.5	21.1	22.6	29.7	37.3	45.7	56.1
DPS (Rs)	(1.0)	-	-	0.2	1.3	1.6	1.9
Valuation Ratios							
P/E (x)	112.9	80.7	58.9	17.8	16.7	14.5	12.2
EV/EBITDA (x)	27.5	23.5	18.2	9.3	9.1	8.2	7.2
P/B (x)	34.2	7.3	6.9	5.2	4.2	3.4	2.8
Return Ratios							
RoE	6.1%	9.1%	11.6%	29.3%	24.9%	23.4%	22.6%
RoCE	13.2%	12.0%	14.9%	29.9%	23.7%	23.5%	23.7%
Liquidity Ratios							
Debt-Equity (x)	1.8	1.9	1.8	1.1	1.2	1.0	0.8
Current Ratio	1.9	2.7	2.3	1.7	2.1	2.1	2.2
Efficiency Ratios							
Gross Asset Turnover	2.4	2.5	2.6	3.1	3.1	3.1	3.2
Interest Coverage Ratio	1.3	1.6	1.6	3.3	3.4	3.7	4.0
Working Capital / Sales	0.2	0.3	0.3	0.2	0.3	0.2	0.3

Notes:

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