

Skipper Ltd

BUY



Asian Markets Securities Pvt. Ltd.

Engineering segment, led to strong revenue growth...

Institutional Research

CMP (Rs)	237
Target (Rs)	290

Nifty: 10,498; Sensex: 34,196

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs2)	102.3
Market Cap (Rs bn)	24.3
52-Week High / Low	293/ 140
3-M Daily Avg. Vol.	1,98,354

Relative Performance

(%)	1m	3m	12m
SKIPPER	(10.6)	(10.1)	51.0
NIFTY	(0.6)	0.4	19.3
Sensex	0.1	1.4	20.2

Shareholding Pattern

(%)	June17	Sept17	Dec17
Promoter	70.4	70.4	70.4
FII	2.0	2.4	6.2
DII	8.7	9.4	8.1
Others	18.9	17.9	15.4

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Skipper Limited (Skipper); reported strong 3QFY18 revenues with 33.2% yoy growth led by strong Engineering segment volume execution & rising commodity prices. Adjusted PAT grew strong by 31.5% due to higher sales & lower interest cost. EBITDAM dipped by 64bp to 13.1%, on account of RM/Sales cost increased by 203bp. The revenue in Engineering Products Business increased robustly by 28.5% yoy on account of over 20% volume and ~8% higher commodity prices. PVC business segment reported muted revenue growth of 6.4%, owing to GST disruption not fully settled in. With new inflow of Rs5.3bn in 3QFY18 and Rs13.3bn YTD, Order book stands healthy at 25.35bn as on date with 1.7x book-to-bill. Further the bidding pipeline continues to be strong. Management expects revenue growth of 20% and EBITDAM of 13-14% for FY18. We kept our earnings estimates largely unchanged. Given the strong business model, healthy EBITDA margins, expansion in PVC segment, and excellent macro environment in power T&D space; we remain positive on the business. However due to recent price correction; we recommend BUY rating with a TP of Rs 290, based on 15x PER of FY20E EPS.

3QFY18 reported Strong revenue and PAT growth; EBITDAM declined: Revenue grew by 33.2% yoy to Rs5.66bn, on the back of strong 28.5% yoy growth in Engineering Products segment. EBITDA increased by 27% yoy to Rs741mn, While EBITDAM decline by 64bp on account of RM/sales cost increased by 203bp. Adjusted PAT came in higher at Rs 292mn registering a growth of 31.5% yoy, due to higher sales & lower interest cost. Engineering Products segment reported revenue growth of 28.5% yoy to Rs4.86bn (Net of Excise grew by 38%) on account of strong volume growth on ~20%. EBIT increased by 32.7% yoy to Rs639mn, EBITM improved by 42bp to 13.1%. GST restricted polymer revenue growth, revenue up muted by 6.4% yoy to Rs 540mn and EBIT increased by 14.2% yoy and EBITM improved by 46bp. Infrastructure Projects revenue down by 1% yoy to Rs 261mn and EBIT down by -13% yoy to Rs32mn and EBITM decline by 173bp.

In 9MFY18 results performance: Sales increased by 34.6% yoy to Rs14.81bn, EBITDA increased by 13.3% yoy to Rs1.94bn and EBITDAM declined by 246bp to 13.1%, PAT increased by 3.6% yoy to Rs684mn and PATM declined by 138bp to 4.8%. Engineering Products segment reported growth of 31.7% to Rs13.14bn

Strong Order book status: Skipper has current order book of over Rs 25.35bn, amounting to a book-to-bill of 1.7x of FY17 revenue. Order inflow remained strong of Rs13.3bn in YTD FY18 and Rs5.25bn during Q3FY18 from PGCIL, Transmission Corporation of Telangana Ltd, The Tamil Nadu Transmission Corporation Ltd & Reliance Jio and for various supplies across South East Asia. PGCIL/SEB/Export order book stands at 52%/33%/15% of total order book respectively. Two large projects by power grid, the 800 kV HVDC corridor and the north east expansion program of Rs 200bn and Rs100bn respectively, both are currently under tendering. Order pipeline are strong from north east and East Indian like Jharkhand, Orissa & Bihar. We expect healthy order inflow from PGCIL, SEB tenders and from International region to provide a healthy growth visibility. Company also sees strong growth opportunity in export markets in African countries like Botswana, Kenya, Tanzania and in Southeast Asia.

Outlook and Valuations: We estimate the revenue and Adj PAT CAGR of 18.3% and 26.5% during FY17-20E. Return ratios to improve in FY20E with ROCE at 26% and ROE at 25.3%. At Current price stock is trading at 15.9x/12.3x in FY19/20 respectively. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, opportunity in exports, benefits of backwards integration, expansion in capacities, strong return ratios, healthy growth and young management team; we believe SKIPPER has a strong business prospects. Given the recent price correction, we recommend BUY rating with a TP of Rs290, based on 15x PER of FY20E EPS.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Sales	14,624	16,786	20,466	23,679	27,774
yoy (%)	15.1	14.8	21.9	15.7	17.3
EBITDA	2,011	2,267	2,691	3,197	3,736
yoy (%)	16.2	12.7	18.7	18.8	16.9
Adjusted PAT	831	977	1,129	1,521	1,978
yoy (%)	34.6	17.6	15.6	34.7	30.1
Equity	102	102	102	102	102
EPS	8.1	9.6	11.0	14.9	19.3

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDAM (%)	13.5	13.5	13.2	13.5	13.5
NPM (%)	5.6	5.8	5.5	6.4	7.1
PER (x)	25.5	21.7	21.5	15.9	12.3
P/BV (x)	6.4	4.9	4.2	3.5	2.8
EV/Sales (x)	1.9	1.7	1.4	1.2	1.0
EV/ EBITDA (x)	14.1	12.5	10.7	9.0	7.5
RoACE (%)	22.9	21.4	22.2	24.2	26.0
RoANW (%)	27.8	25.5	21.0	23.7	25.3

Exhibit 3: Skipper Ltd: 3Q FY18 quarterly results

Y/E March (Rs mn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	yoy(%)	qoq (%)	9MFY17	9MFY18	yoy (%)
Net Sales	4251	5674	3988	5156	5664	33.2	9.9	11002	14809	34.6
Other Operational Income	0	0	0	0	0		-	0	0	-
Total Sales	4251	5674	3988	5156	5664	33.2	9.9	11002	14809	34.6
Stock Adjustment	-105	-56	-486	-397	210	-300.1	-152.8	-765	-673	-12.0
Cons. of Raw Materials	2947	3823	2956	3855	3693	25.3	-4.2	7906	10503	32.8
Employee Cost	194	192	210	251	236	21.6	-6.3	539	697	29.4
Other Expenditure	632	966	792	765	786	24.4	2.8	1610	2342	45.5
Total Expenditure	3668	4925	3472	4473	4923	34.2	10.1	9290	12869	38.5
EBITDA	583	749	516	683	741	27.0	8.5	1712	1940	13.3
Add: Other Income	8	8	8	3	3	-59.0	1.2	23	14	-39.5
Interest	190	124	169	200	176	-7.3	-12.0	535	545	1.9
Depreciation	76	100	107	121	118	54.4	-2.4	215	346	60.4
Excp. Item	0	164	0	0	0	-	-	0	0	-
Profit Before Tax	325	697	248	365	450	38.5	23.2	985	1063	7.9
Provision for Taxation	103	169	88	133	158	53.5	19.0	324	379	16.8
PAT	222	528	160	232	292	31.5	25.6	661	684	3.6
Extra Ordinary Income	0	124	0	0	0	-	0.0	0	0	-
Adj Net Profit	222	404	160	232	292	31.5	25.6	661	684	3.6
Equity Capital (FV Rs 1)	102	102	102	102	102			102	102	
Basic EPS (Rs)	2.2	5.2	1.6	2.3	2.9			6.5	6.7	
Adjusted EPS (In Rs)	2.2	4.0	1.6	2.3	2.9			6.5	6.7	
EBITDA (%)	13.7	13.2	12.9	13.2	13.1	(64bp)	(17bp)	15.6	13.1	(246bp)
PAT (%)	5.2	4.9	4.0	4.5	5.2	(6bp)	65bp	6.0	4.6	(138bp)
Tax / PBT (%)	31.7	24.2	35.5	36.4	35.1	345bp	(124bp)	32.9	35.6	271bp
Raw Mat. / Net Sales (%)	66.9	66.4	61.9	67.1	68.9	203bp	184bp	64.9	66.4	147bp

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 3Q FY18 Segmental finance

Y/E March(Rs mn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	yoy (%)	qoq (%)	9MFY17	9MFY18	yoy%
Segment Revenue										
Engineering Products	3784	4664	3651	4634	4863	28.5	5.0	9982	13148	31.7
PVC products	508	695	433	428	540	6.4	26.2	1387	1401	1.0
Infrastructure Projects	263	315	243	95	261	-0.7	175.7	496	599	20.6
Total Segment Revenue	4555	5674	4327	5156	5664	24.4	9.9	11866	15148	27.7
Segment Results										
Engineering Products	481	609	439	606	639	32.7	5.4	1471	1684	14.5
PVC products	32	58	31	28	36	14.2	27.7	107	95	-11.5
Infrastructure Projects	37	45	29	11	32	-13.0	184.5	70	73	3.4
Total	550	711	500	645	707	28.6	9.5	1648	1852	12.4
Less: Interest (Net)	183	119	164	197	173	-5.2	-12.1	513	535	4.3
Other Unallocable Exp.	42	-104	88	83	83	99.8	0.3	151	254	68.9
Profit Before Tax	325	697	248	365	450	38.5	23.2	985	1063	7.9
EBIT Margin										
Engineering Products	12.7	13.1	12.0	13.1	13.1	42bp	6bp	14.7	12.8	(192bp)
PVC products	6.2	8.3	7.1	6.6	6.7	46bp	8bp	7.7	6.8	(96bp)
Infrastructure Projects	14.0	14.2	12.1	11.9	12.3	(173bp)	38bp	14.2	12.1	(201bp)
Total EBIT Margin	12.1	12.5	11.6	12.5	12.5	41bp	(4bp)	13.9	12.2	(167bp)
ROCE (%)										
Engineering Products	5.6	9.1	5.4	6.9	6.3	73bp	(52bp)	17.1	16.7	(43bp)
PVC products	1.7	2.8	1.5	1.3	1.6	(4bp)	28bp	5.7	4.3	(138bp)
Infrastructure Projects	6.6	7.8	4.9	1.8	4.6	(201bp)	277bp	12.6	10.4	(219bp)
Total ROCE	5.0	7.6	4.7	5.8	5.6	56bp	(16bp)	15.1	14.7	(43bp)

Source: Company, AMSEC Research

Exhibit 5: Segment Revenue (Net of Excise duty)

P&L (Rs mn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	yoy (%)	qoq (%)	9MFY17	9MFY18	yoy%
Segment Revenue										
Engineering Products	3523		3361	4634	4863	38.1	5.0	9237	12858	39.2
PVC products	466		384	428	540	15.9	26.2	1269	1352	6.6
Infrastructure Projects	263		243	95	261	-0.7	175.7	496	599	20.6
Total Segment Revenue	4251		3988	5156	5664	33.2	9.9	11002	14809	34.6

Source: Company, AMSEC Research

Concall Highlights**Engineering Segment:**

- Engineering product grew by 28.5% yoy led by strong volume growth of over 20% and ~8-10% due to higher realization owing to strong commodity prices
- Management increased FY18E revenue guidance to 20% (earlier 15%) led by volume growth and expect EBITDAM to be stable at 13-14%
- Monopoles are gaining traction in the India market, and management is seeing a better demand for this product in the future. In Q3FY18, company tested its first 66 kV transmission monopole which will help getting qualified for more transmission monopole projects.
- In terms of distribution poles, the business is still led mostly by export. In domestic side, the demand has come but from certain regions only.
- Company is seeing increasing opportunity from Railways and Solar segment and is aiming 10-15% revenue contribution from these newer segments in FY19.

PVC Business:

- On PVC segment management expect muted revenue growth in FY18 and 35-40% growth in FY19 with EBITDAM of 8-9%
- In the Polymer segment, company has seen a slight de-growth in margins in 9MFY18, predominantly because of low capacity utilization, and particularly because of demonetization/GST were detrimental in demand pickup.

JV with Metzerplas of Israel to make Drip Irrigation

- JV with Metzerplas of Israel to make Drip Irrigation Systems expected to sign formal agreement by Feb'18 end.

Capex & Other highlights

- Management expected Rs850mn of Capex for Brownfield expansion and tower testing facility
- Current engineering capacity stand at 2, 30,000 MTPL and company will add 15% capacity in next year.
- In Q3FY18, Receivable days stand at 90 days and debt stand at Rs4.5bn

Exhibit 6: Quarterly Revenue Trend

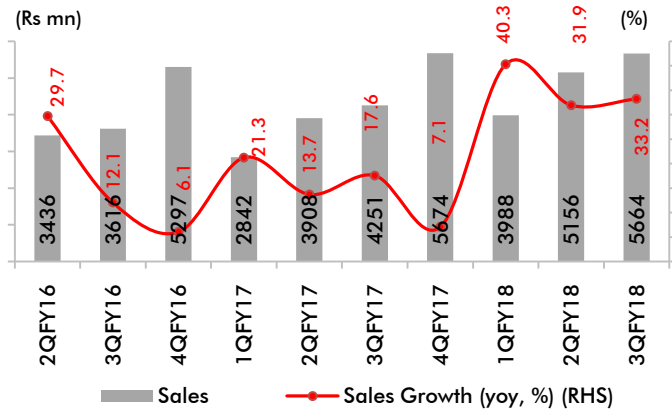


Exhibit 7: Quarterly revenue breakdown (%)

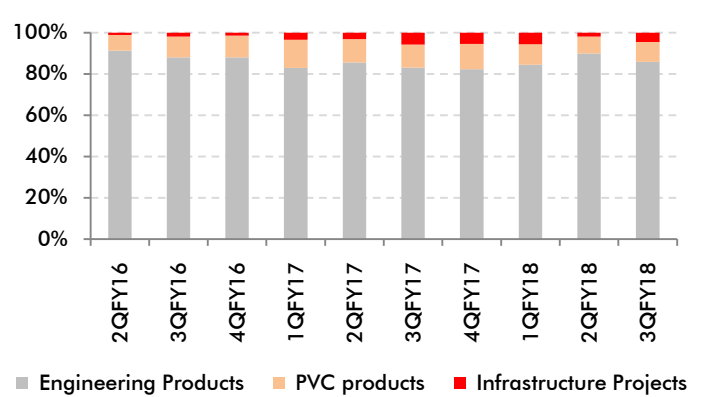


Exhibit 8: Quarterly EBITDA Trend

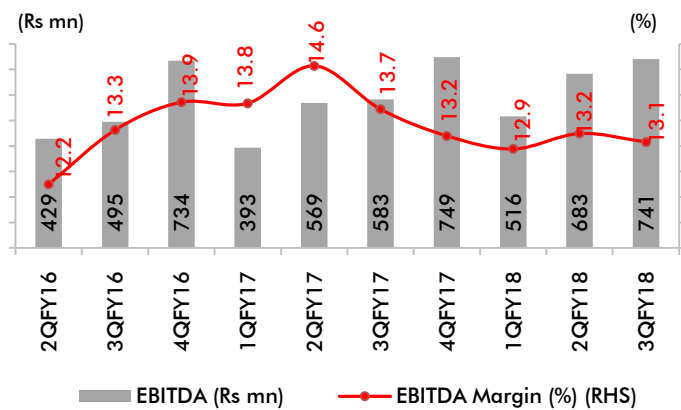


Exhibit 9: Quarterly PAT Trend

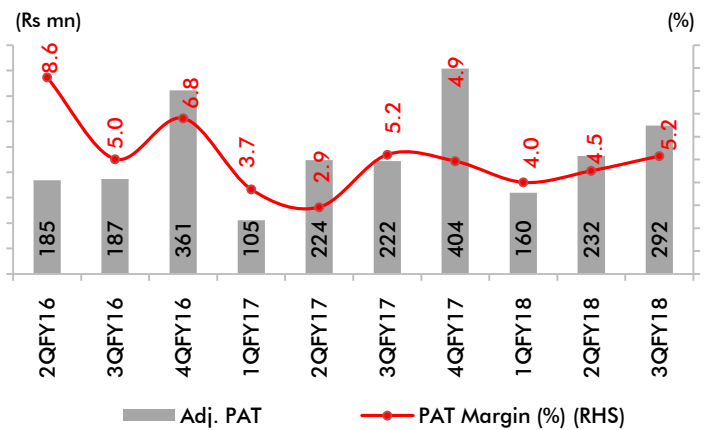


Exhibit 10: Quarterly Engineering Products trend

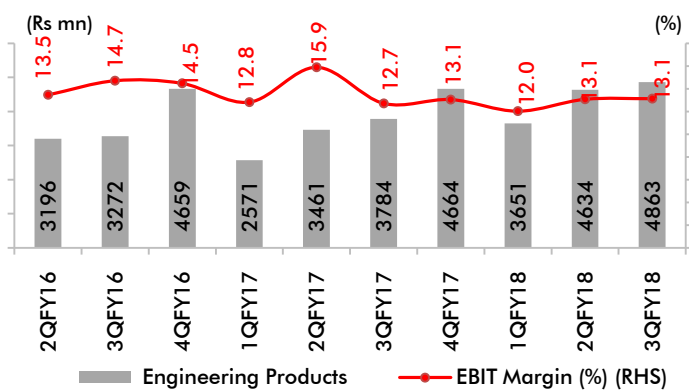


Exhibit 11: Quarterly PVC products trend

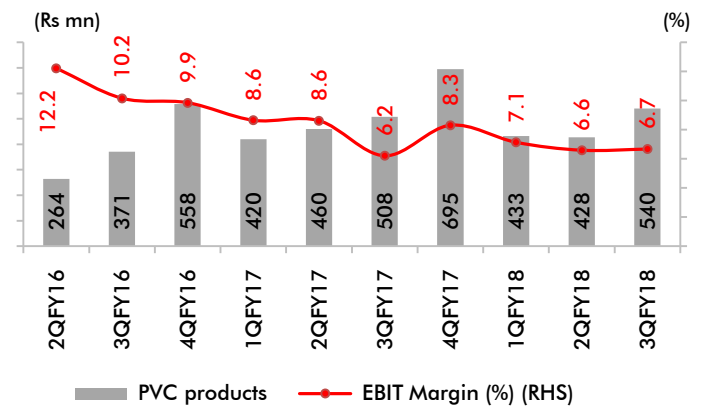


Exhibit 12: Quarterly Infrastructure project trend

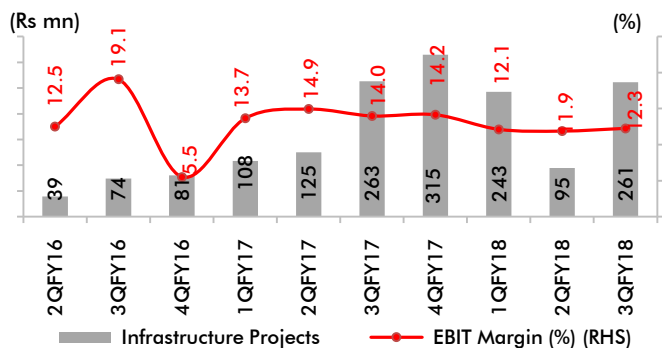
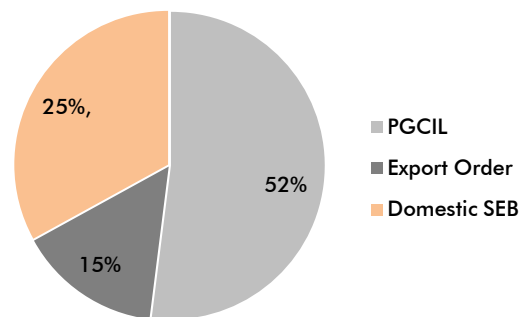


Exhibit 13: Order book Mix



Source: AMSEC Research

Financials (Standalone)

(Rs mn)

Profit & Loss Account						Cash Flow Statement					
Particulars	FY16	FY17	FY18E	FY19E	FY20E	Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net sales	14,624	16,786	20,466	23,679	27,774	PBT	1,433	1,565	1,591	2,113	2,710
Other operating income	257	51	-	-	-	Non-cash adjustments	189	284	416	445	477
Consumption of material	9,485	10,908	13,978	16,149	18,942	Changes in working capital	(1,043)	(498)	(787)	(782)	(983)
Staff Expenses	500	732	860	971	1,139	Interest Paid	570	611	685	639	549
Other operating expense:	2,885	2,930	2,937	3,362	3,958	Tax Paid & Other Adj	(439)	(292)	(461)	(592)	(732)
Total Expenditure	12,870	14,569	17,775	20,482	24,039	Cashflow from operations	711	1,670	1,443	1,823	2,021
EBITDA	2,011	2,267	2,691	3,197	3,736	Capital exp. & Advances	(926)	(847)	(856)	(850)	(650)
Depreciation	241	315	436	475	507	Change in investments	-	-	-	-	-
Operating profit	1,770	1,952	2,256	2,722	3,229	Other investing cashflow	52	31	20	30	30
Other income	52	31	20	30	30	Cashflow from investing	(874)	(816)	(836)	(820)	(620)
EBIT	1,822	1,983	2,276	2,752	3,259	Issue of equity	-	-	-	-	-
Interest	570	611	685	639	549	Issue/repay debt	838	(300)	200	(0)	(500)
Exceptional items	181	193	-	-	-	Interest Paid	(570)	(611)	(685)	(639)	(549)
Profit before tax	1,433	1,565	1,591	2,113	2,710	Dividends paid	(168)	(192)	(263)	(311)	(359)
Tax	482	450	461	592	732	Other financing cashflow	-	-	-	-	-
Minority interest	-	-	-	-	-	Cashflow from financing	100	(1,103)	(748)	(951)	(1,408)
Reported net profit	951	1,115	1,129	1,521	1,978	Change in cash & cash eq	(63)	(249)	(142)	52	(8)
EO Items	120	138	-	-	-	Opening cash & cash eq	561	498	249	108	160
Adjusted net profit	831	977	1,129	1,521	1,978	Closing cash & cash eq	498	249	108	160	152
Share O/s mn	102	102	102	102	102	Free cash flow to firm	(215)	823	587	973	1,371
EPS Rs (adjusted)	8.1	9.6	11.0	14.9	19.3						

Balance Sheet						Ratios					
Particulars	FY16	FY17	FY18E	FY19E	FY20E	Particulars	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS :						PER SHARE					
Share Capital	102	102	102	102	102	EPS Rs (adjusted)	8.1	9.6	11.0	14.9	19.3
Reserves	3,713	4,841	5,707	6,916	8,535	CEPS Rs	10.5	12.6	15.3	19.5	24.3
Minority Interest	-	-	-	-	-	Book Value Rs	37.3	48.3	56.8	68.6	84.4
Total Shareholders Fun	3,815	4,943	5,809	7,019	8,638	VALUATION					
Non-Current Liabilities	2,311	2,171	2,171	2,171	2,171	EV / Net Sales	1.8	1.6	1.3	1.1	1.0
Long term borrowings	1,983	1,758	1,758	1,758	1,758	EV / EBITDA	13.4	11.8	10.1	8.5	7.1
Deferred tax liability	315	391	391	391	391	P / E Ratio	23.8	20.3	20.1	14.9	11.5
Other long term liabilities:	-	-	-	-	-	P / BV Ratio	5.9	4.6	3.9	3.2	2.6
Long-term provisions	13	22	22	22	22	GROWTH YOY%					
Current Liabilities	5,776	6,196	7,465	7,990	8,230	Sales Growth	15.1	14.8	21.9	15.7	17.3
Short term borrowings	2,521	2,400	2,600	2,600	2,100	EBITDA Growth	16.2	12.7	18.7	18.8	16.9
Trade payables	2,124	2,891	3,476	3,892	4,566	Net Profit Growth	34.6	17.6	15.6	34.7	30.1
Other current liabilities	938	899	1,332	1,432	1,488	Gross Fixed Asset Growth	13.1	22.7	14.3	12.5	8.5
Short term provisions	193	5	56	65	76	PROFITABILITY (%)					
Total Equity & Liabilities	11,903	13,310	15,445	17,180	19,039	Gross Profit/ Net sales	27.6	25.0	23.2	23.5	23.4
APPLICATION OF FUNDS :						EBITDA / Net Sales	13.5	13.5	13.2	13.5	13.5
Non Current Assets	4,274	4,936	5,357	5,732	5,875	EBIT / Net sales	12.1	11.6	11.0	11.5	11.6
Gross block (Total)	4,856	5,959	6,809	7,659	8,309	NPM / Total income	5.6	5.8	5.5	6.4	7.1
Less : accumulated depre	1,004	1,317	1,752	2,227	2,734	Raw Material/Net Sales	63.7	64.8	68.3	68.2	68.2
Net block (Total)	3,852	4,642	5,057	5,432	5,575	Int/PBIT	32.2	31.3	30.4	23.5	17.0
Capital work in progress	399	144	150	150	150	RONW	27.8	25.5	21.0	23.7	25.3
Noncurrent investment	-	-	-	-	-	ROCE	22.9	21.4	22.2	24.2	26.0
Long term loans and adv	-	-	-	-	-	Tax / PBT	33.6	28.8	29.0	28.0	27.0
Other non-current assets	22	150	150	150	150	TURNOVER					
Current Assets	7,629	8,374	10,088	11,448	13,164	Net Working Cycle	99	101	97	96	95
Current investment	-	-	-	-	-	Debtors Velocity (Days)	91	81	82	78	75
Inventories	2,500	3,682	4,486	5,125	6,011	Inventory (Days)	71	92	92	91	91
Sundry debtors	3,724	3,730	4,598	5,060	5,707	Creditors Velocity (Days)	82	97	91	88	88
Cash and bank	498	249	108	160	152	Current Ratio	2.5	2.3	2.2	2.2	2.2
Short loans and advances:	907	713	897	1,103	1,294	Quick Ratio	1.7	1.3	1.2	1.2	1.2
Others current assets	-	-	-	-	-	LIQUIDITY					
Total Assets	11,903	13,310	15,445	17,180	19,039	Gross Asset Ratio	3.3	3.1	3.2	3.3	3.5
						Total Asset Ratio	1.3	1.3	1.4	1.5	1.5
						Net Debt-Equity Ratio	1.1	0.8	0.8	0.6	0.5
						Interest Coverage (x)	3.2	3.2	3.3	4.3	5.9
						PAYOUT					
Net Working Capital*	4,039	4,537	5,324	6,106	7,090	Payout %	20	20	23	20	18
Total Gross Debt*	4,667	4,366	4,566	4,566	4,066	Dividend %	140	160	220	260	300
Total Net Debt	4,169	4,117	4,459	4,407	3,914	Yield %	0.6	0.7	1.0	1.2	1.4
Capital Employed*	8,797	9,700	10,766	11,976	13,095						

Source: Company, AMSEC Research

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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