

Skipper Ltd

BUY



Asian Markets Securities Pvt. Ltd.

Healthy volumes but weak realization....

Institutional Research

Nifty: 7,556; Sensex: 24,824

CMP (Rs)	170
Target (Rs)	231

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs 2)	102.3
Market Cap (Rsbn)	17.4
52-Week High / Low	220 / 116
3-M Daily Avg. Vol.	3,87,086

Relative Performance

(%)	1m	3m	12m
SKIPPER	(4.3)	8.3	32.2
NIFTY	(5.1)	(6.3)	(14.2)
Sensex	(4.3)	8.3	32.2

Shareholding Pattern

(%)	Sep15	Jun15	Mar15
Promoter	72.4	72.4	72.4
FII	0.0	0.0	0.0
DII	0.0	0.0	0.0
Others	27.6	27.6	27.6

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Skipper Limited (Skipper); reported healthy 3QFY16 results with 15.2% yoy sales growth despite significant decline in realisations. The revenue in PVC products increase by 98.3% yoy and 40.9% qoq, whereas Engineering segment revenue grew by 13% yoy owing to lower realisation. Adjusted PAT stood at Rs187 mn up 9.6% yoy. The company has commissioned its fourth PVC plant taking the total capacity to 35000 TPA. The TLT order book stands robust and provides healthy visibility along with Rs30bn worth of tenders already submitted. We believe, on one hand, post restructuring its engineering division is all set to capture the benefits arising from strong macro demand in TLT; both domestic as well as globally, on the other hand its strategy to become a pan India player in PVC pipes and fittings is unfolding well with the new capacities coming on-stream in time and at a low cost. Management guided a higher growth in export revenues in TLT whereas it plans to double the revenue every year in PVC segment on a low base. We introduce FY18E estimates and expect a 37% CAGR growth in PAT during FY15-18E. Given the strong order book & pipeline, high and improving EBITDA margins, expansion in PVC segment, and excellent macro environment in power T&D space; we remain positive on the business. We maintain our BUY rating with a TP of Rs 231, based on 15x PER of FY18E EPS.

3QFY16 reported strong results with Engineering segment EBIT margin of 14.7%: Revenue grew robust at 15.2% yoy and 6.2% qoq, despite significant fall in realisation owing to higher volumes. The strong export order book led to a 12.9% yoy growth in engineering segment revenue, whereas PVC segment revenue grew by 98.3% yoy on low base. Blended EBITDA margin has decline by 138bp yoy mainly due to increases in other expenses to 21% of sales Vs 13.2% yoy. Engineering product segment EBIT margin improved 126bp yoy, owing to better sales mix and discontinuation of steel pipes business. Adjusted PAT came in higher at Rs 187mn registering a growth of 9.6% yoy.

Stronger order book pipeline will lead to robust revenues during FY16-FY18: Skipper have submitted bids for projects worth Rs30bn and expects it to open in Q4FY16. Management expects stronger orders from international space especially from Latin America, Europe and African regions. We estimate strong order inflow from PGCIL and from International region with alliance agreements getting extended from the existing clients.

PVC products capacity expansion on track: The company is on track for its massive expansion plans in PVC segments from 10,000 tons to 40,000 tons in FY16. It has already commenced its plant in Sikanderabad (UP) on 2nd Feb'16 taking the total capacity to 35000 TPA. Further new plant in Hyderabad (6000TPA) will be commencing by FY16E. We have factored in sales volume of 20,090 TPA in FY16E, 29,110 TPA in FY17E and 36,900 TPA in FY18E.

Positive Outlook with rich Valuations: We estimate the revenue and PAT CAGR of 20.7% and 36.9% during FY15-18E. Return ratios to improve in FY18E with ROCE at 29% and ROE at 30.6%. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, increasing export orders, significant improvement in EBITDAM due to restructuring of operations, benefits of backwards integration, 4x expansion in PVC segment, strong return ratios, robust growth, improving EBITDAM and young management team; we believe SKIPPER has a strong business prospects. We maintain our BUY rating and a TP of Rs231 based on 15x PER of FY18E EPS. At CMP the stock is trading at 14.7x FY17E and 11.1x FY18E.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Sales	9,003	10,415	12,702	14,843	18,335	22,349
yoy (%)	21.5	15.7	22.0	16.9	23.5	21.9
EBITDA	853	1,102	1,726	2,056	2,622	3,207
yoy (%)	36.9	29.3	56.6	19.1	27.5	22.3
Adjusted PAT	187	269	612	817	1,184	1,573
yoy (%)	89.1	43.8	231.4	33.3	45.0	32.8
Equity	97	102	102	102	102	102
EPS	1.9	2.6	6.0	8.0	11.6	15.4

Exhibit 2: Key Ratios

Y/E Mar	FY13	FY14	FY15	FY16E	FY17E	FY18E
EBITDAM (%)	9.5	10.6	13.6	13.9	14.3	14.4
NPM (%)	2.1	2.6	4.8	5.5	6.5	7.0
PER (x)	88.6	64.7	19.5	18.6	14.7	11.1
P/BV (x)	8.0	7.5	5.7	4.7	3.8	3.0
EV/Sales (x)	2.3	2.1	1.6	1.4	1.2	1.0
EV/EBITDA (x)	24.3	19.5	12.0	10.2	8.2	6.8
RoACE (%)	13.0	14.5	21.7	23.9	27.2	29.0
RoANW (%)	10.1	12.3	33.3	27.6	28.6	30.6

Source: Company, AMSEC Research

Exhibit 3: Skipper Ltd: 3Q FY16 quarterly results

Y/E March(Rs mn)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	yoy(%)	qoq (%)	9MFY15	9MFY16	yoy (%)
Net Sales	3,227	4,995	2,344	3,436	3,616	12.1	5.2	7,708	9,396	21.9
Other Operational Income	1	5	22	63	102			1	187	
Total Sales	3,227	4,999	2,367	3,499	3,718	15.2	6.2	7,708	9,583	24.3
Stock Adjustment	(276)	1,128	(704)	(197)	28	(110.3)	(114.4)	(881)	(873)	(1.0)
Cons. of Raw Materials	2,508	2,489	2,164	2,486	2,294	(8.6)	(7.7)	6,062	6,945	14.6
Employee Cost	93	87	102	124	122	30.8	(1.6)	254	347	36.8
Other Expenditure	427	608	451	657	779	82.3	18.5	1,230	1,887	53.5
Total Expenditure	2,753	4,312	2,013	3,070	3,223	17.1	5.0	6,664	8,306	24.6
EBITDA	474	687	353	429	495	4.4	15.5	1,045	1,277	22.3
Add: Other Income	7	1	6	26	9	24.1	(67.0)	16	41	158.5
Interest	173	154	147	114	153	(11.7)	34.0	429	415	(3.4)
Depreciation	52	63	59	58	61	18.7	6.1	157	178	13.7
Excp. Item	-	-	-	181	-	-	NA	420	181	(56.8)
Profit Before Tax	256	471	153	464	289	12.9	(37.7)	895	907	1.3
Provision for Taxation	86	168	53	161	102	19.4	(36.6)	306	316	3.5
PAT	171	303	100	303	187	9.6	(38.3)	589	590	0.2
Adj Net Profit	171	303	100	185	187	9.6	1.3	313	472	51.1
Equity Capital (FV ₹1)	102	102	102	102	102			102	102	
Basic EPS (₹)	1.7	3.0	1.0	3.0	1.8			5.8	5.8	
Adjusted EPS (In ₹)	1.7	3.0	1.0	1.8	1.8			3.1	4.6	
EBITDA (%)	14.7	13.7	14.9	12.2	13.3	(138bp)	106bp	13.6	13.3	(23bp)
PAT (%)	5.3	6.1	4.2	5.2	5.0	(26bp)	(22bp)	4.0	4.9	86bp
Tax / PBT (%)	33.4	35.7	34.7	34.7	35.3			34.2	34.9	
Raw Mat. / Net Sales (%)	69.2	72.4	61.7	65.4	62.5			67.2	63.4	

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 3Q FY16 Segmental finance

Y/E March(Rs mn)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	yoy (%)	qoq (%)	9MFY15	9MFY16	yoy%
Segment Revenue										
Engineering Products	2899	4413	1951	3196	3272	12.9	2.4	6934	8420	21.4
PVC products	187	434	333	264	371	98.3	40.9	464	968	108.7
Infrastructure Projects	141	152	83	39	74	(47.6)	87.5	310	196	(36.7)
Total Segment Revenue	3227	4999	2367	3499	3718	15.2	6.2	7708	9583	24
Segment Results										
Engineering Products	390	970	295	430	481	23.4	11.9	839	1207	43.8
PVC products	19	55	40	32	38	101.5	17.1	47	110	132.0
Infrastructure Projects	53	13	19	5	14	(73.3)	186.3	98	38	(60.7)
Total	462	1037	355	467	533	15.5	14.1	985	1355	38
Capital Employed										
Engineering Products	7289	6058	6600	7711	7562	3.7	(1.9)	20296	21874	7.8
PVC products	301	459	375	503	842	179.5	67.3	892	1720	92.7
Infrastructure Projects	196	189	214	281	307	56.5	9.0	587	802	36.6
Total Segment Cap. Emp.	7787	6705	7189	8495	8711	11.9	2.5	21776	24395	12
EBIT Margin										
Engineering Products	13.5	22.0	15.1	13.5	14.7	126bp	125bp	12.1	14.3	223bp
PVC products	10.0	12.8	12.1	12.2	10.2	16bp	(206bp)	10.2	11.4	114bp
Infrastructure Projects	37.4	8.2	23.4	12.5	19.1	(1834bp)	658bp	31.5	19.6	(1191bp)
Total EBIT Margin	14.3	20.8	15.0	13.4	14.3	4bp	99bp	12.8	14.1	137bp

Source: Company, AMSEC Research; Note: Engineering products segment financials are after removing for forex gains on fwd contracts.

Exhibit 5: Quarterly Revenue Trend

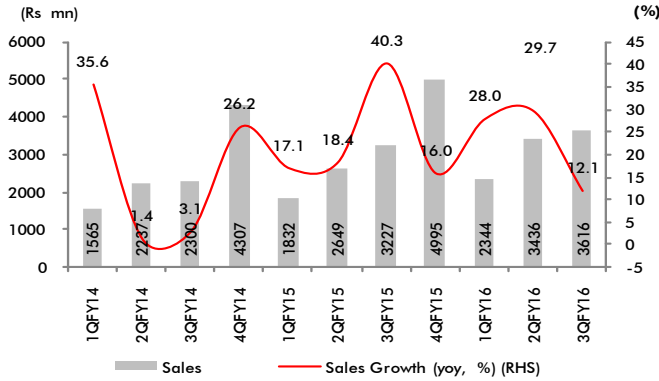


Exhibit 6: Quarterly revenue breakdown (%)

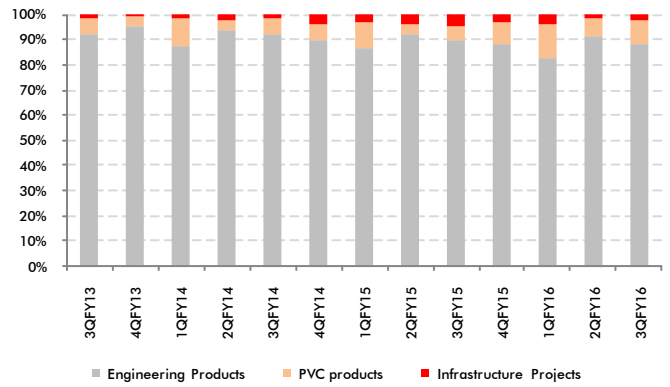


Exhibit 7: Quarterly EBIDTA Trend

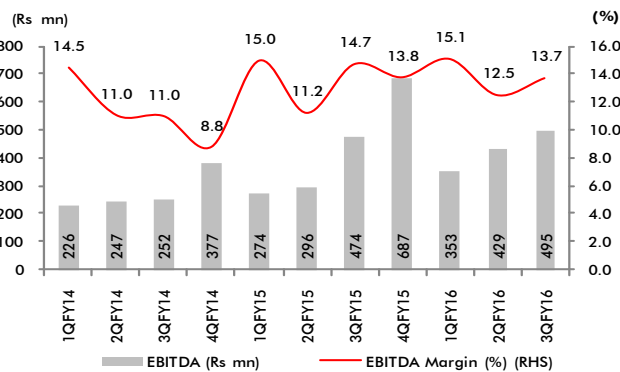


Exhibit 8: Quarterly PAT Trend

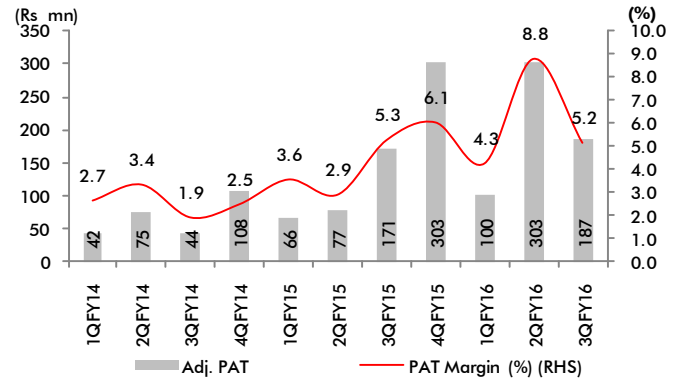


Exhibit 9: Quarterly Engineering Products trend

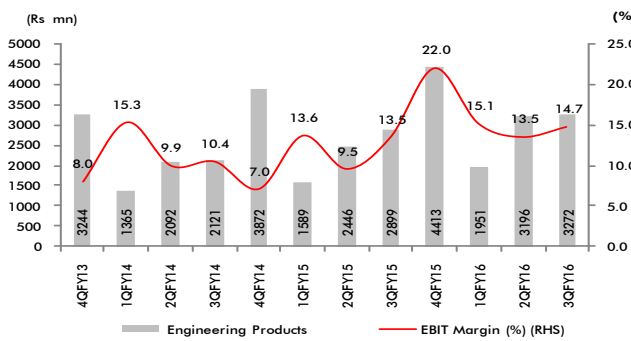


Exhibit 10: Quarterly PVC products trend

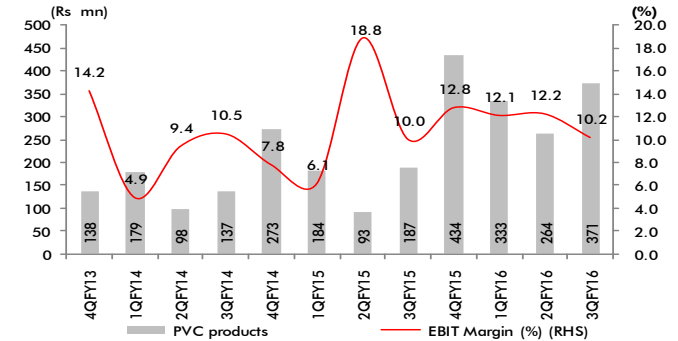


Exhibit 11: Quarterly Infrastructure Products trend

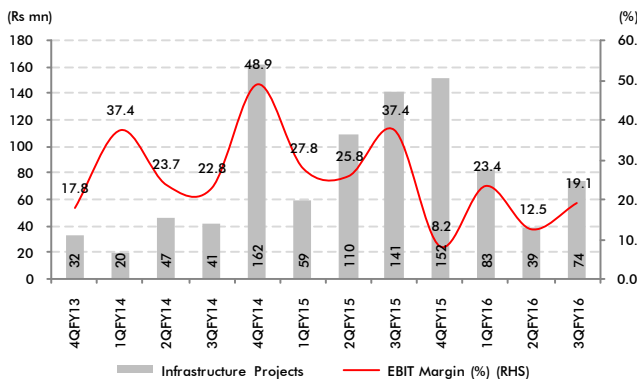
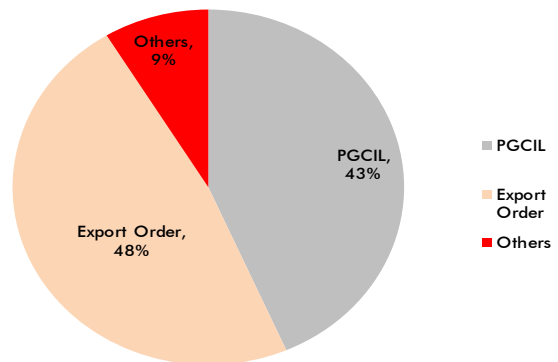


Exhibit 12: PGCIL & Exports constitutes 43% & 48% of total order book



Source: AMSEC Research

Financials (Consolidated)

(Rs mn)

Profit & Loss Account							Cash Flow Statement						
Particulars	FY13	FY14	FY15	FY16E	FY17E	FY18E	Particulars	FY13	FY14	FY15	FY16E	FY17E	FY18E
Net sales	9,003	10,415	12,702	14,843	18,335	22,349	PBT	278	367	1,366	1,407	1,741	2,279
Other operating income	-	-	-	-	-	-	Non-cash adjustments	111	130	203	232	261	287
Consumption of materials	6,829	7,600	8,797	10,138	12,468	15,198	Changes in working capital	(1,015)	(129)	189	(821)	(1,012)	(1,254)
Staff Expenses	195	274	341	401	495	626	Interest Paid	464	605	583	599	620	641
Other operating expenses	1,128	1,439	1,838	2,249	2,750	3,319	Tax Paid & Other Adj	208	(91)	(451)	(471)	(557)	(707)
Total Expenditure	8,151	9,313	10,976	12,787	15,713	19,142	Cashflow from operations	45	883	1,889	945	1,053	1,246
EBITDA	853	1,102	1,726	2,056	2,622	3,207	Capital exp. & Advances	(574)	(315)	(304)	(515)	(500)	(550)
Depreciation	126	151	220	252	281	307	Change in investments	0	-	-	-	-	-
Operating profit	727	951	1,506	1,804	2,341	2,900	Other investing cashflow	14	21	17	20	20	20
Other income	14	21	17	20	20	20	Cashflow from investing	(560)	(294)	(287)	(495)	(480)	(530)
EBIT	741	973	1,523	1,824	2,361	2,920	Issue of equity	27	5	(0)	-	-	-
Interest	464	605	583	599	620	641	Issue/repay debt	1,005	165	(566)	300	300	500
Exceptional items	-	-	(426)	(181)	-	-	Interest Paid	(464)	(605)	(583)	(599)	(620)	(641)
Profit before tax	278	367	1,366	1,407	1,741	2,279	Dividends paid	(11)	(18)	(156)	(239)	(359)	(419)
Tax	90	98	474	471	557	707	Other financing cashflow	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-	Cashflow from financing	557	(454)	(1,305)	(538)	(679)	(560)
Reported net profit	187	269	892	936	1,184	1,573	Change in cash & cash eq	43	135	298	(88)	(107)	157
Adjusted net profit	187	269	612	817	1,184	1,573	Opening cash & cash eq	86	128	263	561	472	366
Share O/s mn	97	102	102	102	102	102	Closing cash & cash eq	128	263	561	473	366	522
EPS Rs (adjusted)	1.9	2.6	6.0	8.0	11.6	15.4	Free cash flow to firm	(528)	567	1,586	430	553	696

Balance Sheet							Ratios						
Particulars	FY13	FY14	FY15	FY16E	FY17E	FY18E	Particulars	FY13	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS :							PER SHARE						
Share Capital	97	102	102	102	102	102	EPS Rs (adjusted)	1.9	2.6	6.0	8.0	11.6	15.4
Reserves	1,963	2,209	2,936	3,632	4,457	5,611	CEPS Rs	3.2	4.1	8.1	10.4	14.3	18.4
Minority Interest	-	-	-	-	-	-	Book Value Rs	21.1	22.6	29.7	36.5	44.6	55.8
Total Shareholders Funds	2,061	2,312	3,039	3,735	4,560	5,713	VALUATION						
Non-Current Liabilities	2,183	2,534	1,972	1,972	1,972	1,972	EV / Net Sales	2.3	2.1	1.6	1.4	1.2	1.0
Long term borrowings	1,986	2,307	1,707	1,707	1,707	1,707	EV / EBITDA	24.3	19.5	12.0	10.2	8.2	6.8
Deferred tax liability	181	218	265	265	265	265	P / E Ratio	88.6	64.7	19.5	18.6	14.7	11.1
Other long term liabilities	16	10	-	-	-	-	P / BV Ratio	8.0	7.5	5.7	4.7	3.8	3.0
Long-term provisions	-	-	-	-	-	-	GROWTH YOY%						
Current Liabilities	3,625	3,969	5,627	6,334	7,490	8,959	Sales Growth	21.5	15.7	22.0	16.9	23.5	21.9
Short term borrowings	1,990	1,755	1,724	2,024	2,324	2,824	EBITDA Growth	36.9	29.3	56.6	19.1	27.5	22.3
Trade payables	1,162	1,563	2,415	2,765	3,366	4,041	Net Profit Growth	89.1	43.8	231.4	33.3	45.0	32.8
Other current liabilities	461	626	1,277	1,504	1,750	2,032	Gross Fixed Asset Growth	17.9	7.3	8.9	11.6	10.4	9.4
Short term provisions	11	25	210	41	50	61	PROFITABILITY (%)						
Total Equity & Liabilities	7,869	8,815	10,637	12,041	14,021	16,644	Gross Profit/ Net sales	18.2	19.7	22.4	23.1	23.5	23.5
APPLICATION OF FUNDS :							EBITDA / Net Sales	9.5	10.6	13.6	13.9	14.3	14.4
Non Current Assets	3,307	3,489	3,578	3,842	4,061	4,304	EBIT / Net sales	8.1	9.1	11.9	12.2	12.8	13.0
Gross block (Total)	3,675	3,943	4,295	4,795	5,295	5,795	NPM / Total income	2.1	2.6	4.8	5.5	6.5	7.0
Less : accumulated depreciatio	413	558	782	1,034	1,315	1,622	Raw Material/Net Sales	75.8	73.0	69.3	68.3	68.0	68.0
Net block (Total)	3,262	3,385	3,513	3,761	3,980	4,173	Int/PBIT	63.8	63.6	38.7	33.2	26.5	22.1
Capital work in progress	36	83	35	50	50	100	RONW	10.1	12.3	33.3	27.6	28.6	30.6
Noncurrent investment	-	-	-	-	-	-	ROCE	13.0	14.5	21.7	23.9	27.2	29.0
Long term loans and advances	-	-	-	-	-	-	Tax / PBT	32.6	26.7	50.4	38.5	32.0	31.0
Other non-current assets	9	21	31	31	31	31	TURNOVER						
Current Assets	4,562	5,326	7,059	8,199	9,960	12,340	Net Working Cycle	124	112	87	95	97	100
Current investment	-	-	-	-	-	-	Debtors Velocity (Days)	63	81	108	109	110	111
Inventories	2,378	2,290	2,282	2,765	3,466	4,286	Inventory (Days)	106	90	76	79	81	82
Sundry debtors	1,549	2,318	3,758	4,433	5,526	6,797	Creditors Velocity (Days)	62	75	100	100	99	97
Cash and bank	128	263	561	472	366	522	Current Ratio	3.3	2.8	2.6	2.6	2.5	2.6
Short loans and advances	507	455	458	529	603	735	Quick Ratio	1.6	1.6	1.8	1.7	1.6	1.7
Others current assets	-	-	-	-	-	-	LIQUIDITY						
Total Assets	7,869	8,815	10,637	12,041	14,021	16,644	Gross Asset Ratio	2.7	2.7	3.1	3.3	3.6	4.0
							Total Asset Ratio	1.2	1.2	1.3	1.3	1.4	1.5
							Net Debt-Equity Ratio	2.0	1.8	1.1	1.0	0.9	0.8
							Interest Coverage (x)	1.6	1.6	2.6	3.0	3.8	4.6
							PAYOUT						
Net Working Capital*	3,046	3,193	3,785	4,545	5,657	7,011	Payout %	6	7	25	29	30	27
Total Gross Debt*	4,230	4,395	3,829	4,129	4,429	4,929	Dividend %	10	15	130	200	300	350
Total Net Debt	4,102	4,132	3,268	3,656	4,063	4,406	Yield %	0.1	0.1	0.8	1.2	0.7	1.3
Capital Employed*	6,472	6,924	7,132	8,128	9,253	10,907							

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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