

Skipper Ltd

BUY



Asian Markets Securities Pvt. Ltd.

Robust results, TLT margins improved profitability....

Institutional Research

Nifty: 8,040; Sensex: 26,553

CMP (Rs)	153
Target (Rs)	170

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs 2)	102.3
Market Cap (Rsbn)	16.0
52-Week High / Low	200 / 93
3-M Daily Avg. Vol.	45,630

Relative Performance

(%)	1m	3m	12m
SKIPPER	5.1	(8.3)	64.5
NIFTY	0.9	(5.7)	(3.5)
Sensex	1.1	(5.5)	(4.8)

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 2QFY16 results with Adjusted Profit of Rs 129 mn up 67% yoy and 28.8% qoq, came in lower than our estimate of 169mn mainly owing to higher depreciation and tax rate. The EBITDA margin increased by 106bp yoy to 12.2%, led by engineering products segment. The order book stands robust at Rs 22bn (2x FY15 sales), and over 20bn worth of projects under tendering. 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 estimate a 54% CAGR growth in PAT during FY15-17E. Given the strong order book of Rs22 bn, 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 Rs170, based on 12x PER of FY17E EPS.

2QFY16 reported strong results with EBITDA margin of 12.2%: Revenue grew robust at 32.1% yoy and 48% qoq, due to strong performance in both Engineering and PVC segments. The strong order book led to a 31% yoy growth in Engineering segment revenue, whereas PVC segment revenue grew by 184% yoy on low base. Blended EBITDA margin has improved by 106bp yoy on the back of better margins in engineering products segment. Engineering product segment EBIT margin improved 394bp yoy, owing to better product mix and discontinuation of steel pipes business. Adjusted PAT came in higher at Rs 129mn registering a growth of 67% yoy. The Adjusted PAT is excluding the exceptional income of Rs 181mn on account of currency hedging contracts.

Order backlog of Rs 22bn, in 2QFY16 provides healthy visibility: Skipper closed 2QFY16 with an Oder Backlog of 22bn (2x FY15 revenue) provides strong revenue visibility of over next two years. Skipper has also submitted bids for projects worth more than Rs 20bn, and is expected to see strong inflow in 2HFY16 both from domestic as well as international clients. The current order book includes 45% export orders, 45% PGCIL, and balance from others.

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 Greenfield plant in Ahmedabad during Q1FY16 with a capacity of 10,000 tons. It has also expanded capacity at its existing plant in Kolkata to 15,000 tons. Further two new plants one in North and other in Guwahati will be operational in Q3FY16 and 4th plant in Hyderabad in expected to commence operations in Q4FY16.

Positive Outlook with rich Valuations: We estimate the revenue and PAT CAGR of 22.2% and 54% during FY15-17E. Return ratios to improve in FY17E with ROCE at 32.2% and ROE at 33.4%. 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 Rs170 based on 12x PER of FY17E EPS. At CMP the stock is trading at 15.7x FY16E and 10.8x FY17E.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Sales	9,003	10,415	12,702	15,210	18,979
yoy (%)	21.5	15.7	22.0	19.7	24.8
EBITDA	853	1,102	1,726	2,331	3,008
yoy (%)	36.9	29.3	56.6	35.1	29.1
Adjusted PAT	187	269	612	998	1,450
yoy (%)	89.1	43.8	231.4	63.0	45.3
Equity	97	102	102	102	102
EPS	1.9	2.6	6.0	9.8	14.2

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDAM (%)	9.5	10.6	13.6	15.3	15.9
NPM (%)	2.1	2.6	4.8	6.6	7.6
PER (x)	79.7	58.2	17.6	15.7	10.8
P/BV (x)	7.2	6.8	5.2	4.1	3.2
EV/Sales (x)	2.1	1.9	1.5	1.3	1.0
EV/EBITDA (x)	22.3	18.0	11.0	8.2	6.4
RoACE (%)	13.0	14.5	21.7	27.9	32.2
RoANW (%)	10.1	12.3	33.3	29.2	33.4

Exhibit 3: Skipper Ltd: 2Q FY16 quarterly results

Y/E March(Rs mn)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	yoy(%)	qoq (%)	1HFY15	1HFY16	yoy (%)
Net Sales	2,649	3,227	4,995	2,344	3,436	29.7	46.6	4,481	5,780	29.0
Other Operational Income	-	1	5	22	63			0	85	
Total Sales	2,649	3,227	4,999	2,367	3,499	32.1	47.9	4,481	5,866	30.9
Stock Adjustment	(71)	(276)	1,128	(704)	(197)	175.9	(72.1)	(606)	(901)	48.8
Cons. of Raw Materials	1,853	2,508	2,489	2,164	2,486	34.2	14.9	3,553	4,651	30.9
Employee Cost	89	93	87	102	124	38.3	21.2	161	226	40.3
Other Expenditure	481	427	608	451	657	36.6	45.6	802	1,108	38.1
Total Expenditure	2,352	2,753	4,312	2,013	3,070	30.5	52.5	3,911	5,084	30.0
EBITDA	296	474	687	353	429	44.6	21.3	570	782	37.1
Add: Other Income	1	7	1	6	26	2,816.3	324.1	9	32	263.7
Interest	129	173	154	147	114	(11.4)	(22.4)	256	262	2.3
Depreciation	51	52	63	59	124	144.7	110.2	105	182	73.9
Excp. Item	420	-	-	-	181	(56.8)	-	420	181	(56.8)
Profit Before Tax	538	256	471	153	398	(26.0)	159.4	639	552	(13.6)
Provision for Taxation	185	86	168	53	161	(13.0)	202.2	220	214	(2.7)
PAT	353	171	303	100	237	(32.8)	136.6	419	337	(19.4)
Adj Net Profit	77	171	303	100	129	67.0	28.8	143	226	58.1
Equity Capital (FV ₹1)	102	102	102	102	102			102	102	
Basic EPS (₹)	3.4	1.7	3.0	1.0	2.3			4.1	3.3	
Adjusted EPS (In ₹)	0.8	1.7	3.0	1.0	1.3			1.4	2.2	
EBITDA (%)	11.2	14.7	13.7	14.9	12.2	106bp	(269bp)	12.7	13.3	60bp
PAT (%)	2.9	5.3	6.1	4.2	3.7	75bp	(56bp)	3.2	3.8	65bp
Tax / PBT (%)	34.4	33.4	35.7	34.7	40.4			34.5	38.8	
Raw Mat. / Net Sales (%)	67.3	69.2	72.4	61.7	65.4			65.8	63.9	

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 2Q FY16 Segmental finance

Y/E March(Rs mn)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	yoy (%)	qoq (%)	1HFY15	1HFY16	yoy%
Segment Revenue										
Engineering Products	2446	2899	4413	1951	3196	30.7	63.8	4035	5147	27.6
PVC products	93	187	434	333	264	184.1	(20.8)	276	596	115.7
Infrastructure Projects	110	141	152	83	39	(64.1)	(52.4)	169	122	(27.7)
Total Segment Revenue	2649	3227	4999	2367	3499	32.1	47.9	4481	5866	31
Segment Results										
Engineering Products	233	390	970	295	430	84.8	45.8	449	725	61.4
PVC products	17	19	55	40	32	84.4	(19.9)	29	72	151.8
Infrastructure Projects	28	53	13	19	5	(82.7)	(74.5)	45	24	(45.9)
Total	279	462	1037	355	467	67.7	31.8	523	822	57
Less: Interest (Net)	129	173	154	147	114	(11.1)	(22.4)	255	262	2.4
Other Unallocable Exp.	-388	32	414	54	71	(118.2)	31.0	-371	124	(133.5)
Profit Before Tax	538	256	470	153	283	(47.5)	84.1	639	436	(31.7)
Capital Employed										
Engineering Products	7179	7289	6058	6600	7711	7.4	16.8	7179	7711	7.4
PVC products	294	301	459	375	503	70.9	34.1	294	503	70.9
Infrastructure Projects	205	196	189	214	281	37.0	31.6	205	281	37.0
Total Segment Cap. Emp.	7679	7787	6705	7189	8495	10.6	18.2	7679	8495	11
EBIT Margin										
Engineering Products	9.5	13.5	22.0	15.1	13.5	394bp	(166bp)	11.1	14.1	295bp
PVC products	18.8	10.0	12.8	12.1	12.2	(661bp)	14bp	10.4	12.1	174bp
Infrastructure Projects	25.8	37.4	8.2	23.4	12.5	(1334bp)	(1086bp)	26.5	19.9	(666bp)
Total EBIT Margin	10.5	14.3	20.8	15.0	13.4	284bp	(163bp)	11.7	14.0	234bp

Source: Company, AMSEC Research

Exhibit 5: Quarterly Revenue Trend

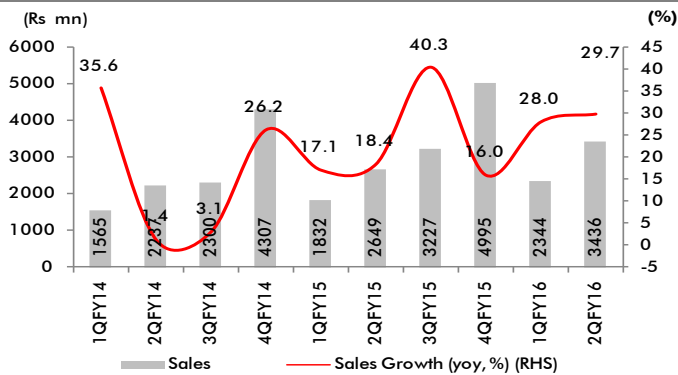


Exhibit 6: Quarterly revenue breakdown (%)

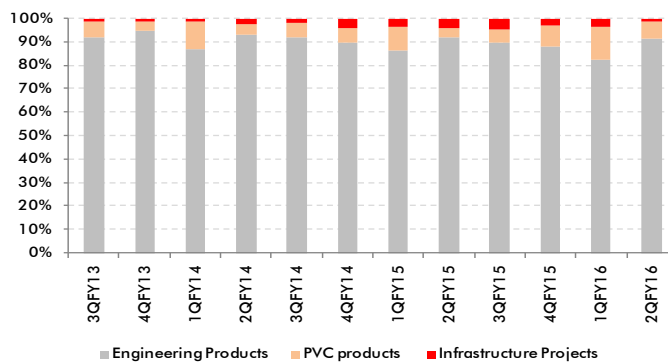


Exhibit 7: Quarterly EBITDA Trend

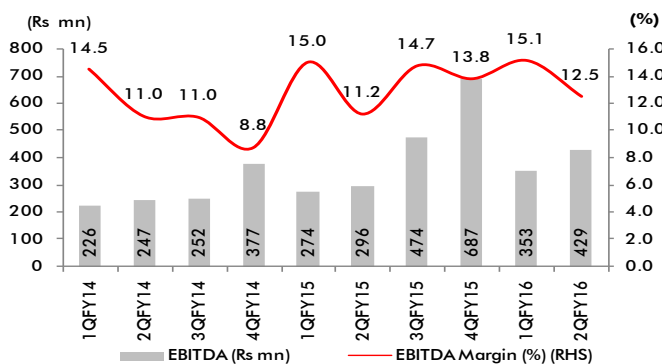


Exhibit 8: Quarterly PAT Trend

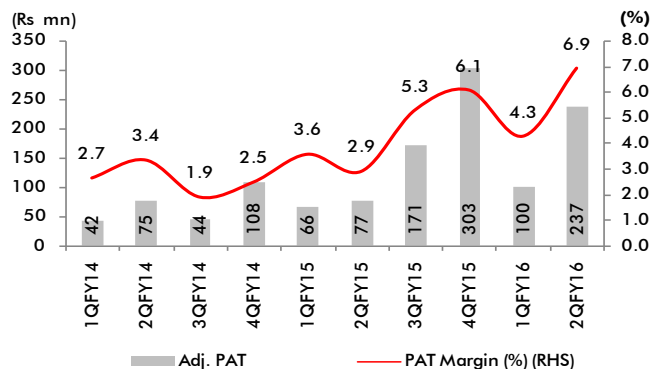


Exhibit 9: Quarterly Engineering Products trend

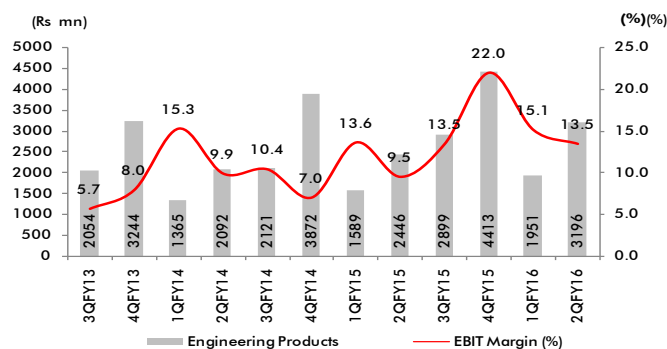


Exhibit 10: Quarterly PVC products trend

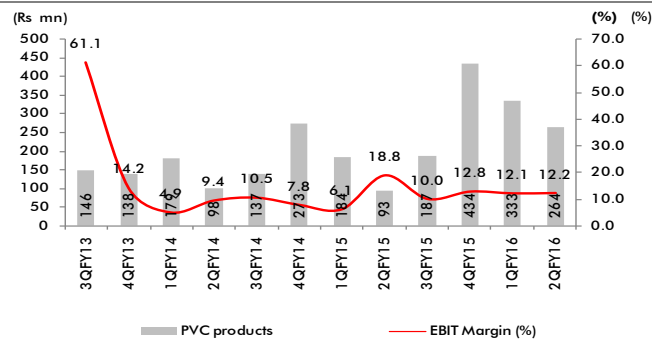


Exhibit 11: Quarterly Infrastructure Products trend

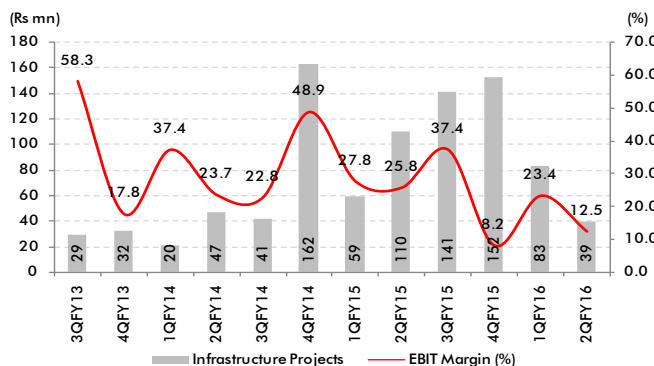
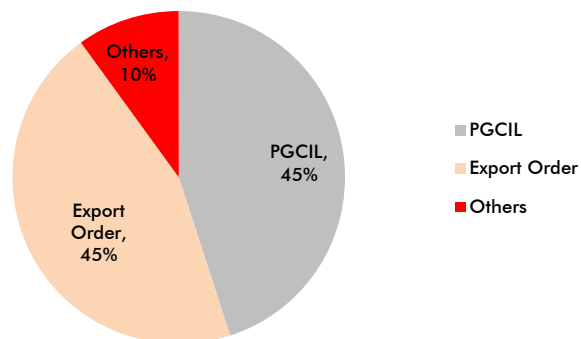


Exhibit 12: PGCIL & Exports constitutes 49% & 51% of total order book



Source: AMSEC Research

Financials (Consolidated)

(Rs mn)

Profit & Loss Account						Cash Flow Statement					
Particulars	FY13	FY14	FY15	FY16E	FY17E	Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales	9,003	10,415	12,702	15,210	18,979	PBT	278	367	1,366	1,501	2,132
Other operating inco	-	-	-	-	-	Non-cash adjustments	111	130	203	221	239
Consumption of mat	6,829	7,600	8,797	10,343	12,906	Changes in working capital	(1,015)	(129)	189	(949)	(1,178)
Staff Expenses	195	274	341	411	512	Interest Paid	464	605	583	609	637
Other operating exp	1,128	1,439	1,838	2,126	2,553	Tax Paid & Other Adj	208	(91)	(451)	(503)	(682)
Total Expenditure	8,151	9,313	10,976	12,879	15,971	Cashflow from operator	45	883	1,889	879	1,148
EBITDA	853	1,102	1,726	2,331	3,008	Capital exp. & Advances	(574)	(315)	(304)	(315)	(300)
Depreciation	126	151	220	241	259	Change in investments	0	-	-	-	-
Operating profit	727	951	1,506	2,090	2,749	Other investing cashflow	14	21	17	20	20
Other income	14	21	17	20	20	Cashflow from investing	(560)	(294)	(287)	(295)	(280)
EBIT	741	973	1,523	2,110	2,769	Issue of equity	27	5	(0)	-	-
Interest	464	605	583	609	637	Issue/repay debt	1,005	165	(566)	100	100
Exceptional items	-	-	(426)	-	-	Interest Paid	(464)	(605)	(583)	(609)	(637)
Profit before tax	278	367	1,366	1,501	2,132	Dividends paid	(11)	(18)	(156)	(239)	(359)
Tax	90	98	474	503	682	Other financing cashflow	-	-	-	-	-
Minority interest	-	-	-	-	-	Cashflow from financing	557	(454)	(1,305)	(748)	(896)
Reported net profit	187	269	892	998	1,450	Change in cash & cash eq	43	135	298	(165)	(27)
Adjusted net profit	187	269	612	998	1,450	Opening cash & cash eq	86	128	263	561	396
Share O/s mn	97	102	102	102	102	Closing cash & cash eq	128	263	561	396	369
EPS Rs (adjusted)	1.9	2.6	6.0	9.8	14.2	Free cash flow to firm	(528)	567	1,586	564	848

Balance Sheet						Ratios					
Particulars	FY13	FY14	FY15	FY16E	FY17E	Particulars	FY13	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS :						PER SHARE					
Share Capital	97	102	102	102	102	EPS Rs (adjusted)	1.9	2.6	6.0	9.8	14.2
Reserves	1,963	2,209	2,936	3,695	4,786	CEPS Rs	3.2	4.1	8.1	12.1	16.7
Minority Interest	-	-	-	-	-	Book Value Rs	21.1	22.6	29.7	37.1	47.8
Total Shareholder	2,061	2,312	3,039	3,797	4,888	VALUATION					
Non-Current Liabil	2,183	2,534	1,972	1,972	1,972	EV / Net Sales	2.1	1.9	1.5	1.3	1.0
Long term borrowing	1,986	2,307	1,707	1,707	1,707	EV / EBITDA	22.3	18.0	11.0	8.2	6.4
Deferred tax liability	181	218	265	265	265	P / E Ratio	79.7	58.2	17.6	15.7	10.8
Other long term liab	16	10	-	-	-	P / BV Ratio	7.2	6.8	5.2	4.1	3.2
Long-term provisions	-	-	-	-	-	GROWTH YOY%					
Current Liabilities	3,625	3,969	5,627	5,989	6,873	Sales Growth	21.5	15.7	22.0	19.7	24.8
Short term borrowing	1,990	1,755	1,724	1,824	1,924	EBITDA Growth	36.9	29.3	56.6	35.1	29.1
Trade payables	1,162	1,563	2,415	2,709	3,380	Net Profit Growth	89.1	43.8	231.4	63.0	45.3
Other current liabilities	461	626	1,277	1,414	1,518	Gross Fixed Asset Growth	17.9	7.3	8.9	7.0	6.5
Short term provisions	11	25	210	42	52	PROFITABILITY (%)					
Total Equity & Liab	7,869	8,815	10,637	11,757	13,733	Gross Profit/ Net sales	18.2	19.7	22.4	30.1	30.1
APPLICATION OF FUNDS :						EBITDA / Net Sales	9.5	10.6	13.6	15.3	15.9
Non Current Asset	3,307	3,489	3,578	3,652	3,693	EBIT / Net sales	8.1	9.1	11.9	13.7	14.5
Gross block (Total)	3,675	3,943	4,295	4,595	4,895	NPM / Total income	2.1	2.6	4.8	6.6	7.6
Less : accumulated d	413	558	782	1,024	1,283	Raw Material/Net Sales	75.8	73.0	69.3	68.0	68.0
Net block (Total)	3,262	3,385	3,513	3,571	3,612	Int/PBIT	63.8	63.6	38.7	29.1	23.2
Capital work in progr	36	83	35	50	50	RONW	10.1	12.3	33.3	29.2	33.4
Noncurrent investme	-	-	-	-	-	ROCE	13.0	14.5	21.7	27.9	32.2
Deferred tax assets	-	-	-	-	-	ROIC	8.8	10.8	13.1	18.9	22.3
Long term loans and	-	-	-	-	-	Tax / PBT	32.6	26.7	50.4	33.5	32.0
Other non-current as	9	21	31	31	31	TURNOVER					
Current Assets	4,562	5,326	7,059	8,105	10,040	Net Working Cycle	124	112	87	95	99
Current investment	-	-	-	-	-	Debtors Velocity (Days)	63	81	108	105	106
Inventories	2,378	2,290	2,282	2,792	3,536	Inventory (Days)	106	90	76	79	81
Sundry debtors	1,549	2,318	3,758	4,375	5,512	Creditors Velocity (Days)	62	75	100	96	96
Cash and bank	128	263	561	396	369	Current Ratio	3.3	2.8	2.6	2.6	2.5
Short loans and adva	507	455	458	542	624	Quick Ratio	1.6	1.6	1.8	1.7	1.7
Others current asset:	-	-	-	-	-	LIQUIDITY					
Total Assets	7,869	8,815	10,637	11,757	13,733	Gross Asset Ratio	2.7	2.7	3.1	3.4	4.0
	-	-	-	-	-	Total Asset Ratio	1.2	1.2	1.3	1.4	1.5
						Net Debt-Equity Ratio	2.0	1.8	1.1	0.9	0.7
						Interest Coverage (x)	1.6	1.6	2.6	3.5	4.3
Net Working Capital	3,046	3,193	3,785	4,573	5,750	PAYOUT					
Total Gross Debt*	4,230	4,395	3,829	3,929	4,029	Payout %	6	7	25	24	25
Total Net Debt	4,102	4,132	3,268	3,532	3,660	Dividend %	10	15	130	200	300
Capital Employed*	6,472	6,924	7,132	7,990	9,181	Yield %	0.1	0.1	0.8	1.3	0.8

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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