Skipper Ltd	
No. of shares (m)	102.3
Mkt cap (Rs crs/$m)	2133/333.9
Current price (Rs/$)	209/3.3
Price target (Rs/$)	262/4.1
52 W H/L (Rs.)	240/126
Book Value (Rs/$)	48/0.7
Beta	1.5
Daily volume NSE (avg. monthly)	158370
P/BV (FY18e/19e)	3.7/3.0
EV/EBITDA (FY18e/19e)	8.8/7.5
P/E (FY18e/19e)	17.1/13.5
EPS growth (FY17/18e/19e)	16.9/11.7/26.7
OPM (FY17/18e/19e)	14.9/14.5/14.6
ROE (FY17/18e/19e)	26.3/23.8/24.6
ROCE(FY17/18e/19e)	18.2/17.5/19.3
D/E ratio (FY17/18e/19e)	0.9/0.8/0.5
BSE Code	538562
NSE Code	SKIPPER
Bloomberg	SKIPPER IN
Reuters	SKIP.BO

Shareholding pattern	%
Promoters	70.4
MFs / Banks / FIs/Others	11.1
FPIs	2.0
Govt. Holding	0.0
Public & Others	16.5
Total	**100.0**

As on Jun 30, 2017

Recommendation

BUY

Analyst

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Company Brief

Skipper is one of the India's leading producers of power T&D structures and also deals in polymer pipes & fittings. It currently has an installed capacity of 230000 mtpa for engineering products and 51000 mtpa for polymer products.

Highlights

- Indian power T&D industry stands to benefit from India's humongous power transmission infrastructure laying plan (Rs 2.6 tn) in the 13th Plan to strengthen its inter-regional grid capacity (Rs 1 tn), intra-regional grid capacity (Rs 1.3 tn) and sub 220 kV distribution systems (Rs 300bn). Shift towards renewable energy - 175GW capacity planned by 2022- would doubtlessly shorten the order execution cycle of EPC players due to relatively shorter erection time for renewable energy generation & transmission infrastructure. New technologies such as higher voltage transmission lines, high capacity power transmission corridors and GIS are being endorsed for increasing grid efficiency and faster execution.
- Unbridled ramp up in Skipper's polymer products capacity over the last few years was motivated to tap emerging demand for plastic piping products from GOIs ambitious housing for all scheme under the aegis of Pradhan Mantri Awas Yojana (PMAY), from Swachh Bharat Mission (SBM) which proposes to build 12m rural toilets by 2019, and from GOI's Atal Mission for Rejuvenation and Urban Transformation (AMRUT) which aims to improve supply of water and sewerage conditions in Indian cities.
- Quality certifications from PGCIL, Indian SEBs and several overseas transmission companies in Kenya, Philippines, Egypt and Nigeria has helped it to report five times as much orders as that four years back - order book/ sales ratio as a result zoomed to 1.8 last fiscal from a queasy 0.7 in FY13. Yet export order inflows have been all but steady for export share of order book has scaringly veered in last few years - 46.9% in FY15 to 27% last fiscal.
- The stock currently trades at 17.1x FY18e EPS of Rs 12.18 and 13.5x FY19e EPS of Rs 15.43. Notwithstanding near term stress in its polymer products business, regional capacities mostly set up on asset light model and strategic tie ups with Sekisui of Japan (for CPVC compound) and WAVIN of Netherlands for advanced plumbing solutions are not worthy of sidestepping. Sustenance of its engineering products business would rest on increased PGCIL investments in 13th Plan - also in North East and emerging T&D opportunities in South East Asia, Latin America and Africa. We recommend buying the stock with a target of Rs 262 based on 17x FY19e earnings (peg ratio: 0.9 on 19% average earnings growth).

(Figures in Rs crs)	FY15	FY16	FY17	FY18e	FY19e
Income from operations	1312.80	1506.22	1702.96	1992.97	2305.82
Other Income	1.66	5.17	3.13	4.60	5.26
EBITDA (other income included)	228.99	232.23	256.26	293.29	341.00
Profit after EO	89.43	95.40	111.55	124.58	157.84
EPS (Rs)	8.74	9.32	10.90	12.18	15.43
EPS growth (%)	232.1	6.7	16.9	11.7	26.7

Company Overview

Established in 1981, Skipper is one of the leading manufacturers of power transmission & distribution structures. It also supplies polymer pipes & fittings under the "Skipper" brand both for agricultural and plumbing sectors. Its transmission tower manufacturing facilities are aptly integrated with angle rolling, tower, accessories & fastener manufacturing and EPC line construction. Besides, being the third largest transmission tower manufacturer in India (top 10 in the world), it also ranks amongst the largest manufacturers of lighting and distribution poles in India housing the entire range from swaged to polygonal poles. Its transmission business market reach spans across several countries in South America, Europe, Africa, Middle East, Southeast Asia and Australia with presence across sub-segments such as towers, EPC, monopoles and poles.

Skipper's latest thrust has been on vastly growing its polymer pipes & fittings business both by vigorously boosting capacities and widening market reach. Its polymer product business capacity - currently at 51000 mtpa) has grown more than four fold in last two years as it went on a binge of setting up largely asset light manufacturing facilities in various Indian states - Gujarat, Telegana, UP and Assam. To get an edge, the company has collaborated with renowned global companies - Sekisui Chemicals of Japan, which provides durastream compund for CPVC pipes and Wavin of Netherlands for advanced plumbing solutions. To gain market share, the company plans to boost its capacity to 1 lakh mtpa in a couple of years from now.

Product Profile

Engineering products

Skipper manufactures transmission towers & poles, monopoles, angles, fasteners , solar structures and tower accessories.

Transmission Towers

Having one of the largest tower manufacturing facilities in India, Skipper boasts of one of the first movers in supplying 880kV transmission towers; it is among a handful of Indian manufacturers that have the capability to manufacture 1200kV towers and transmission monopoles. It has also tied up with Ramboll - world's largest tower design company - for desining ramboll towers. It offers a wide range of products - from 66kV to 800kV towers (singlecircuit/double circuit/ multi circuit towers suitable for twin, triple, quad or hex conductor configurations), meeting both domestic and international material grades ranging from BSEN to ASTM to GOST. It has three start of the art manufacturing plants in eastern India - two at Jangalpur and one at Uluberia - with a combined capacity of 200000 mtpa. To tap rising T&D demand in North East region, the company has commissioned a 30000 mtpa plant - including fabrication and galvanization - in Guwahati last fiscal.

Global footprint

DOMESTIC AND INTERNATIONAL QUALITY STANDARDS

	Indian Standard	International Standards
Fabrication Standard	**IS: 802 Part II 1978**	**CEI IEC 60826**
Tower Materials – Mild Steel	IS:2062-2006 (E250A), IS:1852	BSEN 10025-1/2, BSEN 10056-1/2, (S275JR/JO), ASTM A36/A 36M, GOST 2772-88 Gr. C245
Tower Materials – High Tensile	IS:2062-2006 (E350A) IS:1852	BSEN 10025-1/2, BSEN 10056-1/2(S355JR/JO), ASTM A572 (Grade 42 Y.S 290, Grade 50 Y.S 345), GOST 2772-88 Gr. C345
Galvanizing	IS:2629, IS:2633, IS:4749	BS 729, BSEN ISO 1461, ASTM A-123, ASTM A-153
Fasteners	IS:1367, IS:1247 Grade 5.6 & 8.8	ISO – 4759-3, BS:4190, ASTM A394, DIN-555, DIN 7990, DIN-931

Source: Skipper

Distribution Poles

Used for power distribution and lighting projects in India, Gulf and African countries, Skipper's distribution poles comprises tubular swaged poles, high mast poles and octagonal poles. It manufactures poles from 5 metres to 16 metres (height) that are used for street lighting, telecom aerial cabling, power distribution lines and signboards, among others. Product quality is optimized by 14 metre long galvanizing unit which ensures elimination of double dipping of poles and zinc marks. For swaged poles, the company's clientele includes NTPC, Coal India, Reliance Industries and various RGGVY projects.

Monopoles

Pitched as a substitute for large lattice towers, monopole towers finds use in urban and semi-urban areas, where land acquisition is a major and growing concern. Armed with capacity of 15000 mtpa - which can be increased to 40000 mtpa, the company can supply poles for application up to 400kV in transmission towers and heights up to 40 meters for telecom towers. To qualify for more transmission monopoles projects, it tested the first 66kVtransmission monopoles last fiscal.

Angles

To ensure backward integration of its tower units, Skipper ventured in to hot rolled angle production in 2010. Integration not only ensures full quality control but ready availability of raw materials. It has the capability to roll angles of any grades and lengths.

Fasteners

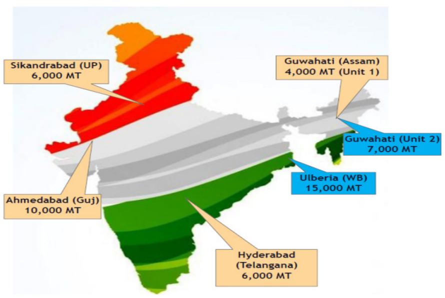
To further integration, the company commissioned manufacturing of mild steel & high tensile fasteners in 2013. It produces a wide range of bolts/nuts/washers with in-house galvanizing to ensure faster erection turn-around.

Tower Accessories

Used for forging connection between tower and conductors, Skipper's tower accessories include hangers, d-shackles, bird guards, anti climbing devices and step bolts.

Polymer products

Its product pipeline includes UPVC pipes, CPVC pipes (durastream hot and cold pipes & fittings), SWR pipes, HDPE pipes and others, which are used across rural agricultural and urban piping segments. The company currently boasts of 51000 mtpa of polymer products capacity (including 3000 mtpa HDPE capacity), including 29000 mtpa of asset light capacity. For borewell applications, it supplies casing pipes, column pipes and ribbed strainer pipes.



	Engineering Products	Polymer Products	Infrastructure Projects
Products Details	• Power Transmission Towers • Power Distribution Poles (Swaged, High Mast and Octagonal) • Transmission Line Monopoles • Telecom Towers • Mild Steel and High Tensile Angles • Fasteners • Tower Accessories	• UPVC Pipes • CPVC Pipes • SWR Pipes • Agriculture Pipes • HDPE Pipes • Overhead Tanks • CPVC Solvent Cement	• Transmission Line EPC • Underground Utility Laying by HDD (Horizontal Directional Drilling) • Water EPC

excluding 3000mtpa HDPE capacity
Source: Skipper

Infrastructure Projects

HDD Projects

Skipper provides trench-less horizontal drilling for the installation of optic fiber cable networks, oil and gas pipelines and cable networks, among others for installing utilities like optic fibre cables, HDPE ducts, power cables and steel pipelines (for sewage, waterlines or gas lines). In the past it has executed projects for L&T, JUSCO, CESC, BSNL, VSNL, Reliance Infocom, Bharti Tele-Ventures, among others, in several Indian states.

Tower EPC

After entering in to EPC line construction in 2010, the company has executed several projects in desert and mountain regions in Rajasthan and J&K respectively. It is currently executing several projects for PGCIL amd UP Power Transmission.

Investment Thesis

Indian Power T&D Industry

Indian power sector is agog with opportunities for the GOI strives to achieve uniform power rates across the country through its mission 'One Nation, One Grid, One Price'. Union Budget 2017-18 proposed 100% eletrcification of Indian villages by May 18 and also unveiled 25% increase in outlay for Integrated Power Development Scheme (IPDS) and Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) scheme. Most of these schemes aim at 24x7 Power for All, reduction of AT&C losses and rural electrification. Transmission sector would see huge investments by the States for expanding the intra-state transmission structure, in addition to PGCIL's annual capital outlay. Indian DISCOMs would now emerge stronger with improved liquidity position post UDAY .

Strengthening inter-regional transmission capacity has been the mainstay of the power sector reforms as 47500mw of inter-regional capacity addition is planned during the 13th Plan taking the total capacity to 118050mw by 2021-22 by strengthening inter-regional corridors and system stregtheneing projects. As a result, the sector would see steady investments from PGCIL and state transmission utilities. Incontrast to the earlier focus on centrl sector investments, focus has now shifted to intra-state transmission additions. Under the 'Power for All' scheme devised by Minstry of Power, state transmission utilities are expected to incur a capex of Rs 98000 crs ($15.3bn). To increase competitivesnes in the sector, tariff based competitive projects have raked in private sector investments.

Investment in Power T&D 2016-2040($bn)

Region/Country	2016-2025	2026-2040	2016-2040
Americas	410	619	1029
Europe	373	489	862
East Europe/Eurasia	171	266	437
Asia	1387	2310	3697
Middle East	95	218	313
Africa	202	598	800
Latin America	158	288	446
World total	**2989**	**5070**	**8059**
India	291	566	857

Source: World Energy Outlook 2016, International Energy Agency

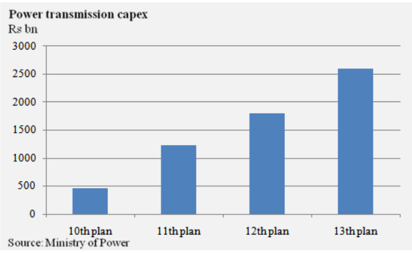
Inter-Regional Transmission Links and Capacity (MW)

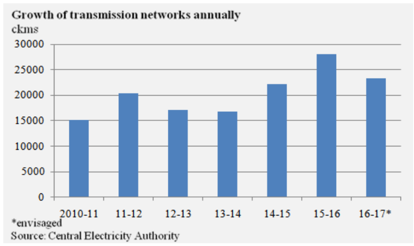
Inter-regional corridors	expected by end of 12th Plan	Addition during 13th plan	expected by the end of 13th Plan
West-North	16920	19800	36720
North East-North	3000	0	3000
East- North	21030	1500	22530
East-West	12790	8400	21190
East-South	7830	0	7830
West-South	7920	16000	23920
East-North East	2860	0	2860
Total	**72350**	**45700**	**118050**

Source: Ministry of Power

According to industry reports, a total Rs 2.6 tn ($40.7bn) is expected to be invested - Rs 1.6 tn ($25.0bn)would come from States and Rs 1 tn ($15.7bn) from PGCIL - during 2017-22 in setting up 106000ckm of transmission lines, 292000 MVA of transformation capacity, 14000mw HVDC bipole line, 11 high capacity transmission corridors and 3 high capacity HVDC system.

New technologies are being adopted for increasing grid efficiency and faster execution. For instance, to reduce ROW requirements for transmission lines higher transmission voltage is being incresingly used, thus reducing both the overall number of transmission lines to be layed out and ROW permits required for setting up a certain capacity. Other such technological changes include migration to higher transmission voltages of upto 1200kV, development of high capacity power transmission corridors (HCPTCs), acceptance of advanced conductor technologies like HTLS conductors/Covered conductors and increasing use of new substation technologies like gas insulated substations (GIS).





Yet the industry continues to be dogged by mammoth execution challenges be it ROW or land acquisition or land acquisition or environment & forest clearances, which disrupt project completion timelines. Resultantly, EPC companies are burdened with cost overruns and mobilization issues.

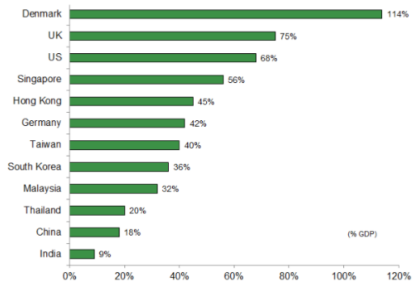
PVC Industry Prospects

Demand for plastic piping products would get a fillip from GOI's ambitious housing for all scheme under the aegis of Pradhan Mantri Awas Yojana (PMAY), which proposes to build 60m houses (20m urban, 40m rural) during 2015-22. Industry reports suggest that stable property prices during last few years, decline in housing loan rate by 150 bps during the last couple of years and fiscal incentives for affordable housing would all galvanize the Indian housing market over the next few years. Awarding 'infrastructure status' to affordable housing (in Union Budget 2017) would enable property developers' cheaper finance access. Also applicability of 'carpet area 'instead of 'built up area' for affordable housing would help broaden the scheme's reach. Further, the Smart Cities Mission of the GOI would also help promoting the residential real estate market.

GOI plans to eliminate open defecation by constructing individual, cluster and community toilets through its Swachh Bharat Mission (SBM). Involving a total outlay of Rs 1.96 lakh crores($30.7bn) - to be shared by Centre, states and private sector - the scheme proposes to build 12m rural toilets by 2019, which doubtlessly would boost demand for plastic pipes.

Mortgage financing as % of GDP

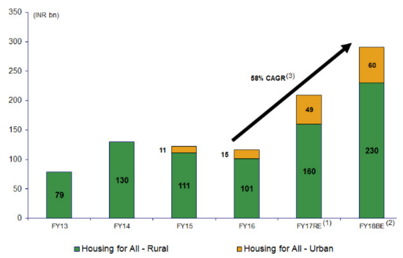
Source: www.smartcities.gov.in



Source: European Mortgage Federation, ADB, EcoomyWatch.com, HDFC

Shifting consumer preference towards plastic based PVC/CPVC pipes - mainly replacement demand - over the cast iron and GI pipes largely due to their higher longevity has further stoked demand. Stellar growth in high rise buildings and large township projects have spurred demand for advanced plumbing solutions. To foster increased farm efficiency, GOI has formulated Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) to extend irrigtion coverage.

According to a report by FICCI, plastic piping industry would also be a beneficiary of GOI's Atal Mission for Rejuvenation and Urban Transformation (AMRUT) which aims to provide basic services to households and build amenties in cities by improving supply of water and sewerage conditions, increase amenity value of cities by developing greenery and well maintained open spaces and reduce pollution by switching to public transport or building facilities for non motorised transport.



Source: Govt Budget, CLSA

Interest subsidy in AWAS Yojana

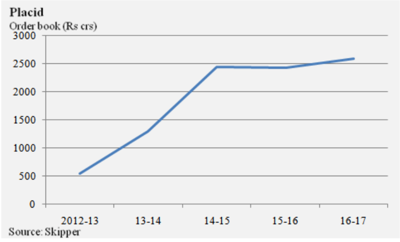
Group	Interest subsidy	Loan amount (Rs lakh)	Carper area (sq mt)
EWS	6.50%	6	30
LIG	6.50%	6	60
MIG 1	4.00%	9	90
MIG 2	3.00%	12	110

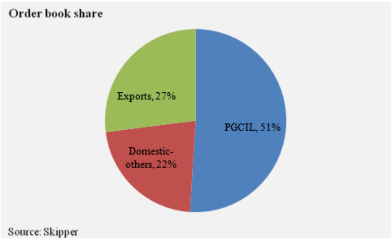
Source: www.pmjandhanyojana.co.in

According to a report ' “India PVC Market Study 2011-2025' published by TechSci Research, India's PVC market is estimated to grow at 14% CAGR during 2016-2025 on acount of growing aagriculture sector, rising urbanization and strong infrastrcucture development. Demand would also get a leg up from favourable governemnt policies and risisng construction activities. The report further states demand from agriculture sector would rise on account of rising population and growing concerns of water sanitary management. Investment of $12.94bn on Iirrigation projects over the next five years - as outlined in Union Budget 2016-17 - would doubtlessly boost offtake of PVC pipes & fittings. Some industry reports also posits that the Indian PVC pipes & fittings market would grow by 15% CAGR in FY15-19 period to reach Rs 391 bn ($6.1bn) by FY19 compared to Rs 225 bn ($3.5bn) in FY15.

Order Inflows

Despite increased international penetrationand steady order inflows from PGCIL, Skipper's engineering order book has all but flatlined in last two years - Rs 2589 crs Vs Rs 2449 crs ($399.3m Vs $391.3m). Buoyed by large contracts in Latin America, Europe, Africa and Middle East, Skipper's order book bulged to Rs 2449 crs($391.3m) by FY15 from Rs 1291 crs ($214.8m) a year ago. It commissoned engineering activities for supplies of two 500kV transmission projecrts in Peru and Chile. Resultantly, share of its export order book zoomed to 46% in FY15 from 30% in FY14 and a mere 10% in FY13. Stoked by record export order execution in FY16 (44% of revenues compared to 4% a year ago), its export order share plunged to 25%. Its export business gained some traction with the bagging of supply orders for transmission and sub-station towers, distribution poles and steel angles in Kenya, Cameroon, Congo, Ghana and Malaysia.





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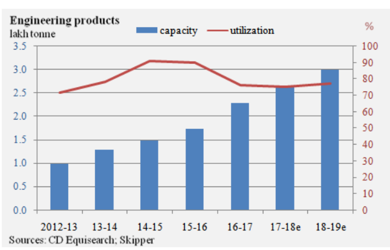
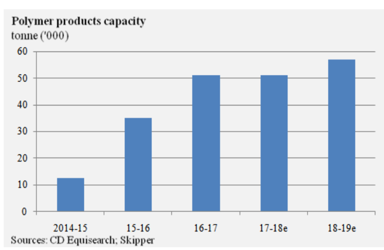
Yet its engineering products business relevance has not been without PGCIL's unstinted ordering - PGCIL's order book steady at some 50% for atleast two years. Recently it bagged orders worth Rs 357 crs ($55.9m) for supply of transmission towers, to PGCIL, Transmission Corporation of Telegana (TSTRANSCO) and Uttar Pradesh Power Transmission Corporation Limited (UPPTCL) and for various supplies across Asia & Africa. Bolstered by the success of UDAY scheme, state utilities are expected to roll out transmission projects Skipper endevours to reduce dependence on PGCIL - this initiative to get a leg up from entry of private players in transmission sector.New initiatives like smart grids, green corridor and governemnt's focus on renewbale energy would also buoy order inflows.

Capex

Despite the pre-eminence of Skipper's engineering products business, a substantial portion of the capex in last two years has gone to spur its polymer products business - whose installed capacity was ramped up from a measly 12500 mtpa at the end of FY15 to 51000 mtpa last fiscal. Embarking on its touted asset light model - which relies on land leases for expansion and thus lower capex /tonne for PVC products to Rs 8000-10000/tonne compared to Rs 20000/tonne for the conventional model), Skipper assidously erected capacities at Ahmedabad (10000 mtpa), Sikandarabad (6000 mtpa), Guwahati (4000 mtpa), Hyderabad (9000 mtpa) in last two years. Pinched by higher capacity utilization in FY15 & FY16, the company also boosted tower manufacturing capacity at Uluberia (25000 mtpa commissioned in FY17) and set up a greenfield plant in Guwahati - which commenced trial production last fiscal. Set up with an investment of Rs 70 crs - Rs 40 crs for 30000mtpa engineering products capacity and Rs 30 crs for 7000 mtpa polymer capacity - the plant would cater to the growing demand for T&D projects in North East region on account of upcoing PGCIL and BOO projects; not to count tax incentives that follows.

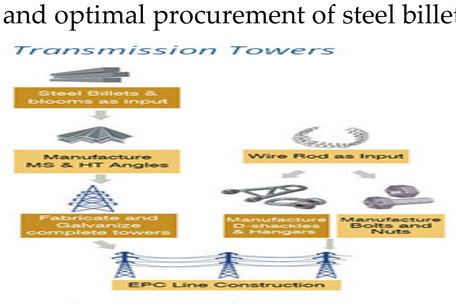




The recently commissioned 7000 mtpa pipe fittings capacity in Guwahati would help produce high value CPVC and UPVC fittings to feed its existing pipe units across the country. Gradual ramp up of engineering products capacity (by some 15% anuually over the next two years) is on anvil over the next couple of years, besides setting up the tower testin station in Kolkata sometime by Q3; FY18's capex earmarked at some Rs 60 crs ($9.4m).

Backward integration

Over the years, Skipper has thicken its integration turf by foraying in manufacturing of nuts & bolts (hangars & shackles later) for tower production at its Uluberia plant in FY14 to increasing galvanizing capacity in FY15 to undertaking EPC projects to setting up producer gas plant for supporting rolling mills. Using steel billets & blooms as inputs it has been manufacturing MS&HT angles from its angle rolling mill facility - subsequently used for tower production - for last seven years. This has not only enabled control over the value chain but enhanced product customization. Margins have streaked not least due to in-house manaufacturing of angles and optimal procurement of steel billets - reduces freight costs - from steel plants located in Eastern India.



Source: Skipper

Market expansion

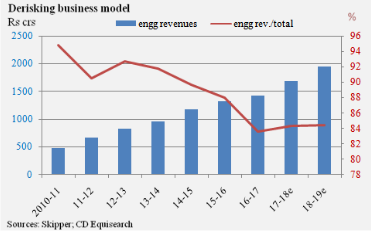
To gain a foothold in the fast growing polymer pipes & fittings industry, Skipper has unrelentingly expanded both PVC capacities and dealer network. Its asset light approach has enabled erecting regional facilities with lesser set up time - 8-9 months compared to 24 months under the conventional model. Regional hubs have been set up to ensure faster market penetartion - Ahemdabad facility to cater to western states of Maharashtra and Gujarat; 4000 mtpa Guwahati capacity to serve North East; Hyderabad for the Southern markets; Uluberia capacity for eastern region and central region of Chaattisgarh (in places like Raipur, Bhatpara, Bilaspur, Durg-Bhilai & Dhamtari). Fortification of its channel partner network - from ~ 500 dealers in FY15 to over 3500 last fiscal) has followed plans to build strong marketing teams in Gujarat, Rajasthan, Maharashtra, Madhya Pradesh and North East.

Financials & valuations

According to World Energy Outlook 2016 published by International Energy Agency, the global T&D infrstructure require investments of $8.06tn during 2016-2040 - $2.99tn during 2016-25 and $5.07tn during 2026-40. Asia would attract the maximum inflows (~46%) during this 25 year period followed by Americas; India would require investments of $291bn and $566bn respectively. Investments in Middle East would be driven by the need to expand electricty accessand adopt new technologies such as smart grids. Countries in South East Asian region has drawn plans to stregthen and expand intra-regional grid interconnections; Indonesia, Thailand, Malaysia have formulated grid expansion plans, resulting in increased business opportunities from high voltage lines and substations.

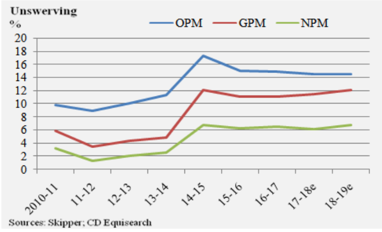
Need for developing evacuation infrastructure in African countries like Kenya, Ethiopia, Tanzania and Uganda would rise with surge in electricty demand, and so would be the case with West African countries like Senegal, Mali, Cameroon and Guinea.As demonstrated by recent concession bids, Brzail is attracting large foreign investments, so much good for its plans to build 85782 kms of tramsnission lines by 2024. Upgradation of ageing transmisison network in US to ensure compliance with regulations related to United States Environmental Protection Agency's Clean Power Plan is need of the hour. Renewebale would attract much attaention of the West for France plans to invest $1bn annually in renewable energy T&D infrastructure and US utilities $20bn.

Embarking on new International frontiers has been one of the cornerstones of Skipper's growth strategy. Gaining entry in newer Asian and African markets of Kenya, Cameroon, Congo, Ghana and Malaysia, jostling for orders in Phillipines and Bostwana and securing T&D infrastructure certification in Mexico have occupied its rank and file in last one year. Introduction of new products like overhead tanks, HDPE pipes and now solar structures have been primarily directed at tapping the premium end of the PVC industry and niche renweable energy segment. Yet some of these iniatives have been vexed by tempestous PVC industry post demonetization and more recently GST. Given fledgling Indian market for monopoles- dominated by lattice towers- Skippers' high margin yielding yet puny monopoles business (capacity mere 15000 mtpa) has also not tested waters in a big way.



Derisking business model

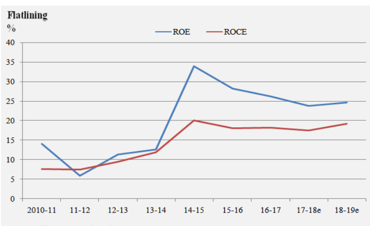
Sources: Skipper; CD Equisearch

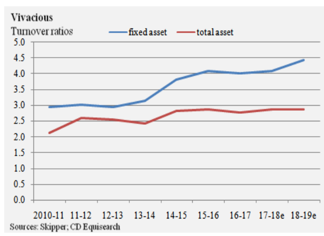


Unswerving

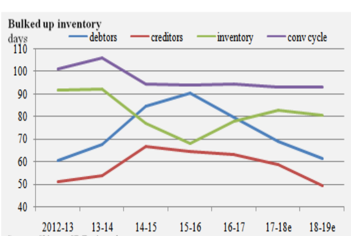
Sources: Skipper; CD Equisearch

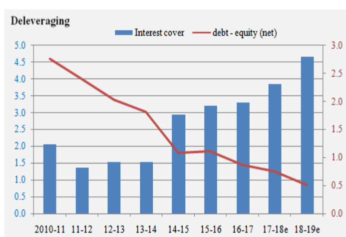
Roiled earlier by cash crunch and now by destocking ahead of GST implementation, PVC pipes & fittings manaufacturers (Supreme Industries Q1 plastic piping products volumes shrunk 3.6%) have all but hobbled, goading Skipper to defer capacity expansion. Tepid recovery would preclude boosting volume growth, thus abysmally skimping capacity utlization (Q1at ~50%). Yet Skipper's engineering products would throng to covetous PGCIL orders for T&D projects in North East India - also tap pole requirements for upcoming Power Grid DMS projects in North East. Besides, PGCIL's planned investment of $1tn in the 13th Plan, newer opportunities in terms of intrastate transmission projects and renewables are expected. To prevent capacity constraints, enginnering products business capacity would be gradually ramped up to make way for nearly 15% volume growth over the next two years.





The stock currently trades at 17.1x FY18e EPS of Rs 12.18 and 13.5x FY19e EPS of Rs 15.43. Recovery this fiscal would be stymied by ongoing stress in its polymer products business (earnings nosedived ~15% in Q1), pressuring full year margins. Fortified by resilient backward integration and thriving order book (1.6x FY18e engineering products revenues), its engineering business revenues would grow by ~17% annually with stable margins. Shortening execution cycle for transmission projects would do little to shrink cash conversion cycle, though turnover ratios would imperciptibly improve. Weighing odds, we reckon the stock merits a buy rating with a target of Rs 262 based on 17x FY19e earnings (peg ratio: 0.9 on 19% average earnings growth; some discount justified on not so smallish current debt) over a period of 9-12 months.





Risks & Concerns

Input risk

Skipper is exposed to fluctuating prices of comodities - steel products (~74% of total raw material consumed in FY17), zinc (~10%), PVC resin (~15%) - which could impact margins. However, it strives to minimise the brunt by inserting escalation clauses in majority of its orders in engineering products.

Exchange rate risk

Skipper's outflow of foreign currency (accrual basis) has exceeded its inflows in most periods in last six years (bar FY16 & FY17) mainly due to steady imports of raw materials. Its unhedged foreign curreny exposure - encompassing import payables, foreign currency loans, bills payable, buyers credit, packing credit - (mainly in USD) stood at Rs 68.38 crs in FY17 (Rs 188.38 crs in FY16). Yet all its export orders are hedged by forward cover.

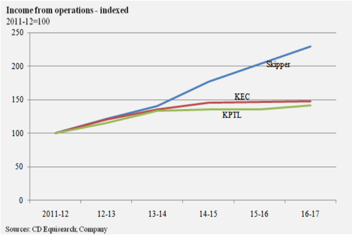
Cross Sectional Analysis

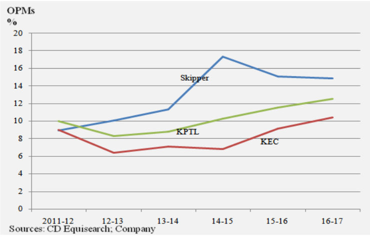
Company	Equity*	CMP	Market cap*	Income from ops*	Profit*	OPM (%)	NPM (%)	Int. Cov.	ROE (%)	DER	Mkt cap / sales	P/BV	P/E
Skipper	10	209	2133	1818	117	14.6	6.4	3.5	26.7	0.9	1.2	4.4	18.2
KEC	51	316	8116	8692	337	10.6	3.9	2.6	26.6	1.3	0.9	5.8	24.1
Kalpataru	31	345	5291	4910	275	12.4	5.6	3.4	11.5	0.2	1.1	2.1	19.2

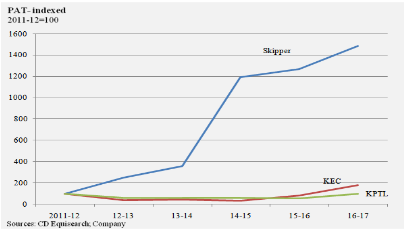
*figures in crores; calculations on ttm basis
Book value adjusted for goodwill and revaluation reserves where applicable

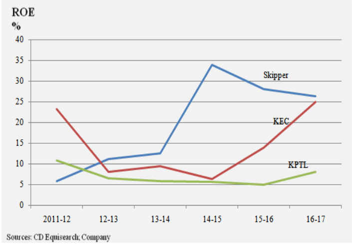
After flat lining for at least three years, KEC's order book finally surged by over a third to Rs 12631 crs (1948.1m) (as on June 30: Rs 13532 crs/$2090.3m) last fiscal on the back of noticeable rise in order intake (up 42% y-o-y), especially in international T&D and railways businesses. It tweaked its order book by de-risking its Middle East exposure and reentering few nations such as Eqypt, Jordan, Tanzania, Mozambique, Malaysia and Thailand. Few prominent PEC orders bagged during last fiscal include a turnkey transmission line order of Rs 364 crore from Karnataka Power Transmission Corporation, 765kV and 400kV transmission lines orders worth Rs 631 crs from various Indian private developers and some large turnkey projects in Afghanistan, Malaysia and Egypt. Replicating its domestic success, the company would continue to expand its reach in international substation arena, both in the GIS and AIS substation space. Given it strong foothold in Brazil - its strongest Latin American market and strong EPC prowess , KEC is eying large chunk of order for 30000 km of transmission lines expected to be built by 2019.

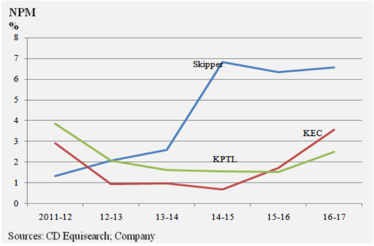
KPTL's international order book (standalone) gathered momentum too for its international transmission order book rose by 70.9% (52% of total book compared to 33% a year back) as it bagged prominent projects including construction of 225kV transmission line and substation in Republic of Senegal ~Rs 1340 crs, transmission line project in West Africa worth some Rs 737 crs, 500kV transmission line in Afghanistan of ~Rs 575 crs and 522 crs transmission line construction project in East Africa. It posits that transmission sector would rake in more investments globally and it is witnessing increased traction from African and South East Asian countries, as partly evidenced by its order book - Africa accounted for 69.2% of its international order book last fiscal and South Asia 11.5%.Yet share of both PGCIL and private sector crept up in domestic order book last fiscal, while share of SEB witnessed a discernible fall - 6% from 31% a year back. Total order inflows though declined y-o-y (Rs 62bn Vs Rs 75bn/$924.1m Vs $1145.7m), it still markedly when compared to average inflows of some Rs 30 bn in three years ending FY15.











Financials

Quarterly Results

Figures in Rs crs

	Q1FY18	Q1FY17	% chg.	FY17	FY16	% chg.
Revenue from Operations	**398.83**	**284.24**	**40.3**	**1702.96**	**1506.22**	**13.1**
Other Income	0.75	0.79	-4.2	3.13	5.17	-39.5
Total Income	**399.58**	**285.03**	**40.2**	**1706.09**	**1511.39**	**12.9**
Total Expenditure	347.22	244.91	41.8	1449.83	1279.16	13.3
EBIDTA (other income incl.)	**52.36**	**40.11**	**30.5**	**256.26**	**232.23**	**10.3**
Interest	16.86	17.87	-5.7	68.19	64.82	5.2
Depreciation	10.75	6.75	59.2	31.55	24.12	30.8
PBT	**24.76**	**15.49**	**59.8**	**156.52**	**143.30**	**9.2**
Tax	8.78	4.95	77.3	45.02	48.17	-6.5
Net Profit	**15.98**	**10.54**	**51.6**	**111.50**	**95.13**	**17.2**
Extraordinary Item	-	-	-	-0.05	-0.27	-79.5
Adjusted Net Profit	**15.98**	**10.54**	**51.6**	**111.55**	**95.40**	**16.9**
EPS	1.56	1.03	51.6	10.90	9.32	16.9

Segment results

Figures in Rs crs

	Q1FY18	Q1FY17	% chg.	FY17	FY16	% chg.
Segment Revenue						
Engineering Products	365.14	257.08	42.0	1423.66	1326.03	7.4
Polymer Products	43.30	41.97	3.2	198.01	152.53	29.8
Infrastructure Products	24.28	10.82	124.4	81.30	27.66	193.9
Total	**432.72***	**309.88***	**39.6**	**1702.96**	**1506.22**	**13.1**
Segment EBIT						
Engineering Products	43.95	32.98	33.3	208.26	193.74	7.5
Polymer Products	3.09	3.63	-14.9	16.55	16.51	0.2
Infrastructure Products	2.95	1.48	99.3	11.10	4.28	159.5
Total	**49.98**	**38.08**	**31.2**	**235.91**	**214.53**	**10.0**
Interest	16.86	17.87	-5.7	61.10^	57.00^	7.2
Other Unallocable Exp. (net of income)	8.37	4.72	77.2	18.29	14.23	28.5
PBT	**24.76**	**15.49**	**59.8**	**156.52**	**143.30**	**9.2**

*gross sales
^exclude bank charges

Income Statement Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Revenue from Operations	**1312.80**	**1506.22**	**1702.96**	**1992.97**	**2305.82**
Growth (%)	26.0	14.7	13.1	17.0	15.7
Other Income	1.66	5.17	3.13	4.60	5.26
Total Income	**1314.46**	**1511.39**	**1706.09**	**1997.57**	**2311.08**
Total Expenditure	1085.47	1279.16	1449.83	1704.27	1970.08
EBIDTA (other income incl.)	**228.99**	**232.23**	**256.26**	**293.29**	**341.00**
Interest	70.43	64.82	68.19	65.36	62.88
EBDT	**158.56**	**167.41**	**188.07**	**227.93**	**278.12**
Depreciation	21.99	24.12	31.55	41.99	47.70
Tax	47.40	48.17	45.02	61.36	72.58
Net Profit	**89.17**	**95.13**	**111.50**	**124.58**	**157.84**
Extraordinary Item	-0.26	-0.27	-0.05	0.00	0.00
Adjusted Net Profit	**89.43**	**95.40**	**111.55**	**124.58**	**157.84**
EPS* (Rs)	8.74	9.32	10.90	12.18	15.43

Segment results Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Segment Revenue					
Engineering Products	1176.83	1326.03	1423.66	1680.00	1946.80
Polymer Products	89.73	152.53	198.01	211.34	231.99
Infrastructure Products	46.24	27.66	81.30	101.63	127.03
Total	**1312.80**	**1506.22**	**1702.96**	**1992.97**	**2305.82**
Segment EBIT					
Engineering Products	180.91	193.74	208.26	231.00	267.69
Polymer Products	10.28	16.51	16.55	16.91	20.88
Infrastructure Products	11.01	4.28	11.10	15.24	18.42
Total	**202.20**	**214.53**	**235.91**	**263.15**	**306.98**
Interest*	58.26	57.00	61.10	57.39	53.65
Other Unallocable Exp. (net of income)	7.37	14.23	18.29	19.82	22.91
PBT	**136.57**	**143.30**	**156.52**	**185.94**	**230.42**

*exclude bank charges

Balance Sheet

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
SOURCES OF FUNDS					
Share Capital	10.23	10.23	10.23	10.23	10.23
Reserves	293.63	371.28	484.06	589.55	726.45
Total Shareholders Funds	**303.86**	**381.52**	**494.29**	**599.78**	**736.68**
Long term debt	170.69	198.32	175.83	162.68	152.89
Total Liabilities	**474.55**	**579.84**	**670.12**	**762.46**	**889.58**
APPLICATION OF FUNDS					
Gross Block	429.50	485.59	595.90	685.26	751.26
Less: Accumulated Depreciation	78.23	100.35	131.66	173.65	221.35
Net Block	**351.27**	**385.24**	**464.24**	**511.61**	**529.91**
Capital Work in Progress	3.47	39.95	14.36	10.00	5.00
Investments	0.00	0.00	0.00	0.00	0.00
Current Assets, Loans & Advances					
Inventory	228.24	249.99	368.18	405.00	465.75
Sundry Debtors	375.78	372.37	372.97	380.43	399.45
Cash and Bank	56.09	49.80	24.94	48.25	44.34
Loans & Adv. & others	45.78	90.74	71.29	69.66	75.38
Total CA & LA	**705.90**	**762.89**	**837.37**	**903.33**	**984.91**
Current Liabilities	541.64	558.27	619.09	616.11	577.88
Provisions	20.81	19.32	0.47	0.50	0.59
Total Current Liabilities	**562.45**	**577.59**	**619.55**	**616.61**	**578.47**
Net Current Assets	143.45	185.31	217.81	286.72	406.44
Net Deferred Tax	-26.47	-31.48	-39.10	-45.70	-52.03
Other Assets (Net Of Liabilities)	2.85	0.83	12.81	-0.17	0.26
Total Assets	**474.55**	**579.84**	**670.12**	**762.46**	**889.58**

Cash Flow Statement

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Net Income (a)	89.17	95.13	111.50	124.58	157.84
Non cash exp. & others (b)	**29.86**	**31.00**	**38.53**	**44.49**	**49.28**
Depreciation	21.99	24.12	31.55	41.99	47.70
Deferred tax	4.93	5.01	7.62	6.60	6.33
Interest received	-1.51	-4.36	-2.66	-4.10	-4.76
Others	4.44	6.24	2.02	0.00	0.00
(Increase) / decrease in NWC & others (c)	**-6.84**	**-110.60**	**-35.86**	**-53.43**	**-60.09**
Inventory	0.77	-21.75	-118.19	-36.82	-60.75
Trade receivables	-143.96	3.41	-0.60	-7.46	-19.02
Trade payables	85.24	-29.12	76.73	-28.91	13.01
Other assets (net of liabilities)	51.11	-63.15	6.21	19.76	6.67
Operating cash flow (a+b+c)	**112.20**	**15.53**	**114.17**	**115.64**	**147.02**
Purchase of fixed assets	-25.23	-100.55	-93.92	-75.44	-62.00
Sale of fixed assets	0.90	3.25	0.06	0.00	0.00
Fixed deposits	-3.64	-7.69	11.71	-16.56	0.00
Interest Received	0.35	6.14	2.43	4.10	4.76
Investing cash flow (d)	**-27.62**	**-98.85**	**-79.73**	**-87.90**	**-57.24**
Net borrowings	-56.63	85.34	-30.35	-1.89	-72.75
Dividends paid (including CDT)	-1.80	-16.01	-17.24	-19.09	-20.94
Financing cash flow (e)	**-58.43**	**69.33**	**-47.59**	**-20.97**	**-93.69**
Net change (a+b+c+d+e)	**26.15**	**-14.00**	**-13.15**	**6.76**	**-3.91**

Key Financial Ratios

	FY15	FY16	FY17	FY18e	FY19e
Growth Ratios (%)					
Revenue	26.0	14.7	13.1	17.0	15.7
EBIDTA (other income included)	90.6	1.4	10.2	14.4	16.3
Net Profit	232.1	6.7	16.9	11.7	26.7
EPS	232.1	6.7	16.9	11.7	26.7
Margins (%)					
Operating Profit Margin*	17.3	15.1	14.9	14.5	14.6
Gross Profit Margin	12.1	11.1	11.0	11.4	12.1
Net Profit Margin	6.8	6.3	6.6	6.3	6.8
Return (%)					
ROCE	20.1	18.1	18.2	17.5	19.3
ROE	33.9	28.1	26.3	23.8	24.6
Valuations					
Market Cap / Sales	1.2	0.9	1.1	1.1	0.9
EV/EBIDTA	8.4	7.8	9.0	8.8	7.5
P/E	17.5	14.3	16.8	17.1	13.5
P/BV	5.2	3.6	4.0	3.7	3.0
Other Ratios					
Interest Coverage	2.9	3.2	3.3	3.8	4.7
Debt-Equity Ratio	1.1	1.1	0.9	0.8	0.5
Current Ratio	1.3	1.3	1.3	1.4	1.6
Turnover Ratios					
Fixed Asset Turnover	3.8	4.1	4.0	4.1	4.4
Total Asset Turnover	2.8	2.9	2.8	2.9	2.9
Debtors Turnover	4.3	4.0	4.6	5.3	5.9
Inventory Turnover	4.7	5.3	4.7	4.4	4.5
Creditors Turnover	5.5	5.6	5.8	6.2	7.4
WC Ratios					
Debtor days	84.5	90.6	79.9	69.0	61.7
Inventory days	76.9	68.3	77.8	82.8	80.7
Creditor days	66.9	64.8	63.1	58.8	49.4
Cash conversion cycle	94.5	94.1	94.6	93.0	93.0
Cash Flows					
Operating cash flow	112.2	15.5	114.2	115.6	147.0
FCFE	31.6	9.7	-7.6	42.4	17.0
FCFF	134.2	-32.6	71.3	88.1	132.9

*includes fx gains/losses

Cumulative Financial Data

Figures in Rs crs	FY11-13	FY14-16	FY17-19e
Income from operations	2144	3861	6002
Engineering products revenues	1982	3458	5050
Polymer products revenues	98	301	641
Infrastructure products revenues	64	101	310
Operating profit	206	573	878
EBIT	179	521	769
PBT	66	317	573
PAT after EO	42	212	394
Dividends	3	35	63
Engineering products EBIT margins (%)	8.1	13.4	14.0%
Polymer products EBIT margins (%)	28.9	10.9	8.5%
Infrastructure products EBIT margins (%)	30.5	25.8	14.4%
OPM (%)	9.6	14.9	14.6
GPM (%)	4.5	9.8	11.6
NPM (%)	2.0	5.5	6.6
Interest coverage	1.6	2.6	3.9
ROE (%)	9.2	24.3	24.1
ROCE (%)	8.7	15.9	18.4
Debt-equity ratio*	2.0	1.1	0.5
Fixed asset turnover	3.1	3.6	4.4
Total asset turnover	2.3	2.6	2.8
Debtors turnover	6.6	4.9	5.2
Inventory turnover	4.0	4.5	4.8
Creditors turnover	9.3	6.7	7.0
Debtors days	55.0	74.8	70.4
Inventory days	90.6	81.2	76.5
Creditor days	39.2	54.7	51.9
Cash conversion cycle	106.4	101.3	95.0
Dividend payout ratio (%)	7.3	16.6	15.9

FY11-13 implies three years ending fiscal 13; *as on terminal year

Dramatic change in fortunes in FY14-16 period startled investors for Skipper's reported fivefold increase in post tax earnings riding on a stunning expansion in OPMs (14.9% Vs 9.6% in FY11-13 period), mainly brought about due to phenomenal jump in engineering business earnings (EBIT margin: 13.4% in FY14-16 period Vs 8.1% in the preceding three year period). Consequently, return on capital perked up too - ROE 24.3% Vs 9.2%; ROCE: 15.9% Vs 8.7% (see table). Renewed focus on polymer products would not show much impact -subdued by higher marketing spends and generous dealer incentives- for the engineering business is estimated to account for ~87% of allocable EBIT in FY17-19 period. Steered by healthy execution of transmission orders, post tax earnings would all but double in FY17-19 period.

Moderation of outstanding debt (0.5 Vs 1.1in FY14-16) would stimulate interest coverage to the highest level in several years. Improved capacity utilization of the Guwahati facility - both for engineering and polymer products businesses- and higher roll out from its newly commissioned polymer products facility at Hyderabad would not fail to spur fixed asset turnover ratio (4.4 Vs 3.6). Inventory rationalization post execution of robust export orders this fiscal and unclogging of polymer products supplies would prod cash conversion cycle to 95 days in FY17-19 period from 101.3 days in the preceding three year period. Dividend payout would more or less stabilize around 16%.

Financial Summary – US dollar denominated

million $	FY15	FY16	FY17	FY18e	FY19e
Equity capital	1.6	1.5	1.6	1.6	1.6
Shareholders funds	47.9	57.0	72.7	90.0	111.2
Total debt	61.2	70.6	67.5	68.2	56.9
Net fixed assets (incl CWIP)	56.7	64.1	73.8	81.6	83.7
Investments	0.0	0.0	0.0	0.0	0.0
Net current assets	22.9	27.9	30.6	41.6	60.1
Total assets	75.2	86.9	99.8	115.5	135.1
Revenues	214.7	230.1	253.8	312.0	360.9
EBITDA	37.5	35.5	38.2	45.9	53.4
EBDT	26.0	25.6	28.0	35.7	43.5
PBT	22.4	22.0	23.3	29.1	36.1
PAT	14.6	14.6	16.6	19.5	24.7
EPS($)	0.14	0.14	0.16	0.19	0.24
Book value ($)	0.47	0.56	0.71	0.88	1.09
Operating cash flow	17.9	2.3	17.6	18.1	23.0
Investing cash flow	-4.4	-14.9	-12.3	-13.8	-9.0
Financing cash flow	-9.3	10.5	-7.3	-3.3	-14.7

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate ($63.89/$)
* nine months ended Mar 31, 2016 due to change in accounting year

Recommendation

To upgrade the T&D infrastructure in North East, the GOI has earmrked Rs 10000 crs for the region; of that nearly 485 of the funds would go towards strengthening T&D systems in Arunachal Pradesh and Sikkim and the balance would be invested towards strengthening the intra-state T&D system in North East. Easier power evacuation by adoption of new technologies suchas HDVC, general network access (GNA) has become the mainstay of Indian T&D industry as evidenced by increased investements in HDVC systems in 13th Plan. For UDAY states, average T&D losses and gap between average cost of supply (ACS) and average revenue realized (ARR) has been coming down.

Implementation of feeder separation scheme, installation of smart energy meters and increased use of information technology in operation and maintenance has ensured power delivery at reduced costs in India. Globally, renewed focus on renewable energy in developed economies and need for building intra-regional grid interconnections in emerging economies of South East Asia and plans for developing evacuation infrastructure in African countries like Kenya, Ethiopia, Tanzania and Uganda would boost global T&D investments over the next few years. Most of the growth in Asia would come from India and China where much of the planned investments would be targeted towards developing extra high voltage grid infrastructure, to connect new capacity coming mainly from renewable sources.

Increased international penetration and steady order inflows from PGCIL (its order book share more or less flat at 50% for last few years) has barely galvanized the order book in last few years not least due to shorterning T&D order execution cycle and modest export order inflows. Sale of goods & services (including deemed exports) accounted for leass than 15% of total revenues in FY17 compared to over 47% a year back, underscoring near unpredicttability of pattern of global order flows.

Thanks to demonetization of high value Indian currency notes, Skipper's polymer product business EBIT flatlined last fiscal. Unsurprisingly, recovery has been trampled by GST implementation which has triggered mass scale destocking at chaneel partners. Given dependence on consumer demand sustained resurrection in volumes is not anticipated until after the third quarter. Yet GOI's ambitious measure on promoting affordable housing and health & sanitation would make demand more pervasive.

The stock currently trades at 17.1x FY18e EPS of Rs 12.18 and 13.5x FY19e EPS of Rs 15.43. Swaying fortunes of consumer oriented polymer products business have brought risk of externalities to the fore, be it slowness in demand or increased competition. Yet the largely resilient enginnering products has stood up well thanks of impregnable cost advantages resulting from backward integration. Risk of overeliance on PGCIL bears scrutiny. On balance, we advise buying the stock with a target of Rs 262 based on 17x FY19e earnings (peg ratio: 0.9 on 19% average earnings growth) over a period of 9-12 months.

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buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY14	FY15	FY16	FY17
Average	60.5	61.15	65.46	67.09
Year end	60.1	62.59	66.33	64.84

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.