

Volume growth to remain strong

We maintain our Buy rating, with a revised TP of Rs202. Volume growth was robust despite slower offtakes from Powergrid. We believe that falling commodity prices could have adversely affected margins due to pass-through clause with customers. However, competitive advantage and favourable mix allowed the company to maintain margins. We believe that Powergrid's upcoming capex plans will allow Skipper to show robust growth in Transmission towers in FY17E and FY18E. Softening commodity prices may dampen the sales to some extent, but overall earnings growth is expected to stay strong in the range of 35% CAGR in FY15-18E due to the company's ability to sustain margins.

- Q3FY16 results below estimate:** Volumes grew by 20% YoY in Q3FY16. Sales in value terms grew by 12% YoY to Rs3.6bn (expectation of Rs3.9bn). Volume growth was offset by 8% decline in realisations for Q3FY16. EBITDA margins declined by 140bps to 13.7% (expectation of 13.2%) due to higher freight cost on account of export sales. Export sales were at ~50% of total sales. Engineering products segment witnessed 13% YoY growth. EPC sales declined by 48% YoY due to higher focus on profitability than execution. PVC products sales grew by 98% YoY.
- Domestic order inflows to show strong growth and export order inflow to pick up:** Powergrid has deferred on ordering in Q3FY16 due to higher focus on execution. With recent announcements of approvals in investment proposals, Powergrid is expected to tender most of the orders in Q4FY16. Currently, Skipper is L1 on orders worth Rs30bn in pipeline. Based on historical trend, Skipper is expected to procure at least ~Rs10bn worth of orders in Q4FY16E. The management is confident of 20% YoY growth in the FY15 order book of Rs24.5bn in FY16E. In FY17E and FY18E, we expect export orders to pick up due to repeat orders from existing customers and new customer addition in new geographies. Overall, we expect order book to witness 17% CAGR in FY15-18E.
- Despite softening commodity prices, ability to sustain margins is commendable:** The company has escalation and descalation clauses with customers and has the condition to sustain margins at ~14%. As per normal conditions, softening commodity prices should create pressure on fixed cost of the company and may result in deterioration of margins. But even in falling commodity prices, customers are allowing the company to sustain margins at ~14%. This proves the company's pricing power and competitive edge over peers. Favourable sales mix and partial pass-through has helped the company sustain margins and this is expected to continue in future. Margins were marginally affected by freight cost and higher discounts to PVC product dealers. We have assumed flat realisations from current levels in FY17E and FY18E and expect the company's margins to improve from better utilisations in transmission towers and higher penetration in PVC products.
- Maintain BUY, factoring in declining commodity prices:** We have reduced our estimates factoring in decline in commodity prices and cut our sales estimate by 11% and 10% for FY17E and FY18E, respectively. We expect lower commodity prices to dampen margin improvement, and hence, expect margins to improve gradually with better operating leverage. We maintain the stock to BUY, with a TP of Rs202 (15x Dec'17E EPS). We believe that the softening commodity prices will be challenging for the company, but the company's ability to sustain margins will ensure long-term stability in earnings. Based on our scenario analysis, current valuations are factoring significant commodity prices softening.

Y/E Mar (Rsmn)	Q3FY16	Q3FY15	YoY (%)	Q2FY16	QoQ (%)	Q3FY16E	Var (%)
Net Sales	3,616	3,227	12.1	3,436	5.2	3,948	- 8.4
Other op Inc	102	1		63		60	
Employee cost	122	93	30.8	124	(1.6)	130	(6.4)
Material cost	2,322	2,233	4.0	2,290	1.4	2,665	(12.9)
Admin & Other Exp	779	427	82.3	657	18.5	683	14.0
EBITDA	495	474	4.4	429	15.5	529	(6.5)
EBITDA margin (%)	13.3	14.7	(140 bps)	12.2	110 bps	13.2	10 bps
PBT	289	256	12.9	283	2.3	374	(22.8)
Tax	102	86	19.4	161	(36.6)	131	(22.1)
Adjusted PAT	187	171	9.6	181	3.1	243	(23.2)

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adjusted EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	10,415	15.7	1,102	10.6	269	43.8	2.7	12.5	14.5	52.2	16.5
FY15	12,702	22.1	1,726	13.6	594	120.6	5.8	22.5	21.6	24.5	10.3
FY16E	15,130	19.1	2,018	13.3	804	35.4	7.9	23.6	22.6	21.6	10.6
FY17E	18,544	22.6	2,549	13.7	1,140	41.8	11.1	26.5	25.2	15.2	8.4
FY18E	21,574	16.3	3,038	14.1	1,456	27.7	14.2	26.8	26.9	11.9	6.9

Source: Company, Centrum Research Estimates

Target Price	Rs202	Key Data	
CMP*	Rs170	Bloomberg Code	SKIPPER IN
Upside	19%	Curr Shares O/S (mn)	102.3
Previous Target	Rs230	Diluted Shares O/S(mn)	102.3
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	17.4/256
Price Performance (%)*		52 Wk H / L (Rs)	219.9/115.5
		5 Year H / L (Rs)	219.9/32
SKIPPER IN	(4.3)	0.9	32.2
Nifty	(5.1)	(11.4)	(14.2)
		Daily Vol. (3M NSE Avg.)	387086

*as on 1 February 2016; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-15	Jun-15	Mar-15	Dec-14
Promoter	72.4	72.4	72.4	72.4
FII's	0.0	0.0	0.0	0.0
DII's	0.02	0.0	0.0	0.0
Others	27.6	27.6	27.6	27.6

Source: BSE, *as on 1 February 2016

Earning Revision

Particulars (Rs mn)	FY16E			FY17E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	15,130	16,171	(6.4)	18,544	20,850	(11.1)
EBITDA	2,018	2,216	(9.0)	2,549	2,985	(14.6)
EBITDA Margin (%)	13.3	13.7		13.7	14.3	
PAT	804	925	(13)	1,140	1,409	(19.1)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY16E			FY17E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	15,130	15,729	(3.8)	18,544	19,420	(4.5)
EBITDA	2,018	2,286	(11.7)	2,549	2,850	(10.5)
PAT	804	946	(15.0)	1,140	1,321	(13.7)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)	202	(9.6)
7	0	0	224		

*as on 1 February 2016, Source: Bloomberg, Centrum Research Estimates

Bhalchandra Shinde,
bhalchandra.shinde@centrum.co.in; 91 22 4215 9756

Valuation

Exhibit 1: Rolling forward EV/EBITDA chart

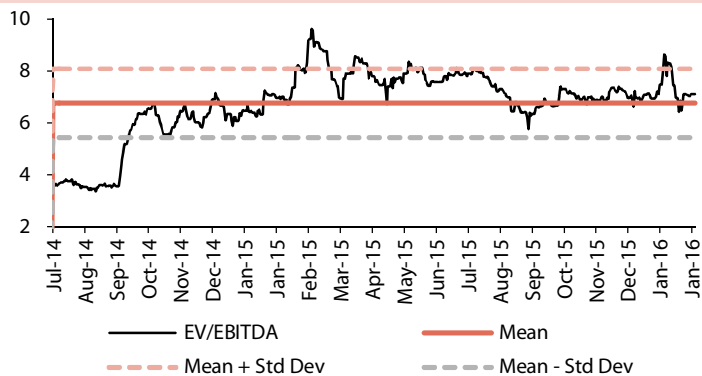
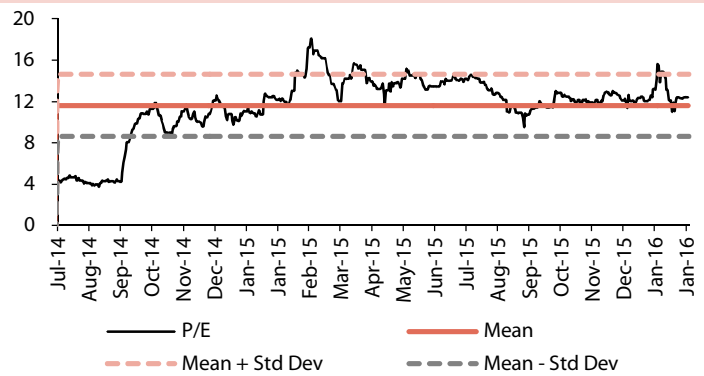


Exhibit 2: Rolling forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR (FY15-FY17) %			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			Div Yield (%)		
		Rev	EBITDA	PAT	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Skipper	17,368	20.8	21.5	38.6	13.6	13.3	13.7	24.5	21.6	15.2	10.3	10.6	8.4	0.9	0.8	0.8
Kalpataru Power *	30,293	11.1	15.9	25.2	9.9	10.7	10.7	18.3	16.2	14.5	9.8	7.3	6.3	0.7	1.1	1.2
KEC International*	31,622	10.3	20.3	32.7	6.8	7.6	8.1	19.6	17.5	15.4	7.2	7.6	6.4	1.1	0.9	1.2

Source: Centrum Research Estimates; *Bloomberg Estimates

Exhibit 4: Scenario analysis

Rs mn	Worst case			Base case			Best case		
	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Sales realizations due to commodity prices	10% decline in every year			-10% decline in FY16E, but sustain at FY16E levels over FY17E & FY18E			-10% decline in FY16E, but revives by 10% in FY17E & FY18E each		
Sales	15,130	16,542	17,703	15,130	18,544	21,574	15,130	19,695	24,955
EBITDA	2,012	2,266	2,496	2,012	2,549	3,038	2,012	2,698	3,519
EBITDA margins (%)	13.3	13.7	14.1	13.3	13.7	14.1	13.3	13.7	14.1
Adjusted PAT	804	939	1,082	804	1,140	1,456	804	1,220	1,746
EPS in Rs	7.9	9.2	10.6	7.9	11.1	14.2	7.9	11.9	17.1
Target Price at 15x Dec-17E earnings	153			202			237		

Source: Centrum Research Estimates

As per our analysis, worst conditions due to commodity prices softening are factored in current valuations. Revival in commodity prices from current levels is likely to provide significant upside. Further, pick up in transmission capex in domestic market will ensure additional upside from best case scenario.

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 5: Quarterly Financials (Standalone)

Y/E Mar (Rs mn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Net Sales	4,313	1,832	2,649	3,227	4,995	2,344	3,436	3,616
Other Op. Income	-	0	0	1	5	22	63	102
Total Cost	3,936	1,558	2,352	2,753	4,312	2,013	3,070	3,223
Raw Materials	3,492	1,166	1,782	2,233	3,617	1,460	2,290	2,322
Employee	70	71	89	93	87	102	124	122
Others	373	321	481	427	608	451	657	779
EBIDTA	377	274	297	474	687	353	429	495
Depreciation	38	54	51	52	63	59	58	61
EBIT	339	220	246	423	623	295	371	434
Other Income	9	8	1	7	1	6	26	9
Interest	201	127	129	173	154	147	114	153
PBT	147	101	118	256	471	153	283	289
Tax	39	35	185	86	168	53	161	102
Eol	-	-	420	-	-	-	181	-
Reported Profit	108	66	353	171	303	100	303	187
Adjusted PAT (incl. MI)	108	66	71	171	303	100	181	187
YoY Growth (%)								
Revenue	26.3	17.1	18.4	40.3	15.8	28.0	29.7	12.1
EBITDA	18.5	21.1	20.2	88.1	82.1	29.0	44.5	4.4
Adj. PAT	74.2	57.3	(4.8)	284.6	180.3	52.8	153.9	9.6
Margins (%)								
EBITDA	8.7	14.9	11.2	14.7	13.7	14.9	12.2	13.3
PBT	3.4	5.5	4.5	7.9	9.4	6.5	8.1	7.8
Adj.PAT	2.5	3.6	2.7	5.3	6.1	4.2	5.2	5.0
Segmental results								
Sales								
Engineering products	3,878	1,589	2,446	2,899	4,413	1,951	3,377	3,273
Infra projects	162	59	110	141	152	83	39	74
PVC products	273	184	93	187	434	333	264	371
EBIT								
Engineering products	273	217	233	390	970	295	612	481
Infra projects	79	16	28	53	13	19	5	14
PVC products	21	11	17	19	55	40	32	38
EBIT margins (%)								
Engineering products	7.0	13.6	9.5	13.5	22.0	15.1	18.1	14.7
Infra projects	48.9	27.8	25.8	37.4	8.2	23.4	12.5	19.1
PVC products	7.8	6.1	18.8	10.0	12.8	12.1	12.2	10.2

Source: Company, Centrum Research

Exhibit 6: Key assumptions

	FY14	FY15	FY16E	FY17E	FY18E
Volumes in tonnes	103,008	135,471	165,275	201,635	231,880
Sales in Rs mn	10,404	12,702	15,130	18,544	21,574
Sales realizations in Rs/ Tonne	92,748	86,870	78,183	78,183	78,183
Segmental sales					
Engineering products	9,554	11,768	12,922	15,764	18,129
PVC products	591	897	1,436	1,938	2,520
EPC	270	462	347	416	499

Source: Centrum Research Estimates

Financials (Consolidated)

Exhibit 7: Income Statement

Y/E March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Revenues	10,415	12,702	15,130	18,544	21,574
COGS	7,600	8,797	10,137	12,425	14,454
% of revenues	73.0	69.3	67.0	67.0	67.0
Operating expenses	1,439	1,838	2,537	3,107	3,542
% of revenues	13.8	14.5	16.8	16.8	16.4
Employee Costs	274	341	439	464	539
% of revenues	2.6	2.7	2.9	2.5	2.5
EBITDA	1,102	1,726	2,018	2,549	3,038
EBITDA Margin (%)	10.6	13.6	13.3	13.7	14.1
Depreciation & Amortisation	151	220	259	262	283
EBIT	951	1,506	1,758	2,287	2,754
Interest expenses	605	583	577	614	630
Other Income	21	17	48	55	81
PBT (excluding exceptional item)	367	940	1,229	1,728	2,206
Provision for tax	98	346	425	587	750
Effective tax rate (%)	27	37	35	34	34
Net Profit	269	594	804	1,140	1,456
Min. int./ share from asso.	-	-	-	-	-
Adj. PAT after expc.	269	594	804	1,140	1,456
Exceptional item	-	298	127	-	-
Rep. PAT	269	892	931	1,140	1,456

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	FY14	FY15	FY16E	FY17E	FY18E
Growth Metrics (%)					
Revenue	15.7	22.1	19.1	22.6	16.3
EBITDA	29.3	56.6	16.9	26.3	19.2
Adj. Profit	43.8	120.6	35.4	41.8	27.7
Profitability Metrics (%)					
EBITDA Margin	10.6	13.6	13.3	13.7	14.1
PBIT Margin	9.3	12.0	11.9	12.6	13.1
PBT Margin	3.5	10.8	9.3	9.3	10.2
PAT Margin	2.6	4.7	5.3	6.1	6.7
Return Ratio (%)					
ROE	12.5	22.5	23.6	26.5	26.8
ROCE	14.5	21.6	22.6	25.2	26.9
ROIC	11.0	14.6	16.1	18.1	19.8
Turnover Ratio (days)					
Inventory period	80.3	65.6	80.0	80.0	80.0
Debtors period	81.3	108.0	104.0	103.0	99.0
Creditors period	61.7	80.3	70.4	67.2	67.5
Net working capital	111.6	86.0	103.6	100.8	98.7
Solvency Ratio (x)					
Debt-equity	1.9	1.3	1.2	1.0	0.8
Net debt-equity	1.8	1.1	1.1	0.8	0.6
Current Ratio	1.3	1.3	1.2	1.3	1.4
Interest coverage	1.6	2.6	3.1	3.8	4.5
Dividend					
Dividend per share	0.2	1.3	1.3	1.3	1.3
Dividend payout ratio (%)	6.7	18.0	17.2	14.0	11.0
Dividend yield (%)	0.1	0.9	0.8	0.8	0.8
Per share (Rs)					
Basic EPS - Adjusted	2.7	5.8	7.9	11.1	14.2
Fully diluted EPS - Adjusted	2.7	5.8	7.9	11.1	14.2
Fully diluted EPS - Reported	2.7	8.7	9.1	11.1	14.2
CEPS	4.2	8.0	10.4	13.7	17.0
Book value	23.0	29.3	37.2	46.8	59.5
Valuation (x)					
P/E (Adj.)	52.2	24.5	21.6	15.2	11.9
P/BV	6.2	4.8	4.6	3.6	2.9
EV/EBITDA	16.5	10.3	10.6	8.4	6.9
EV/Sales	1.7	1.4	1.4	1.1	1.0
Mcap/Sales	1.3	1.1	1.1	0.9	0.8

Source: Company, Centrum Research Estimates

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	102	102	102	102	102
Minority Interest	-	-	-	-	-
Reserves	2,209	2,936	3,707	4,687	5,983
Shareholders' fund	2,312	3,039	3,810	4,790	6,086
Debt	4,395	3,829	4,752	4,693	4,996
Deferred Tax/non current Liability	227	265	265	264	266
Total Capital Employed	6,934	7,132	8,826	9,747	11,348
Net Fixed Assets	3,468	3,547	3,789	3,827	4,043
Investments	-	-	-	-	-
Inventories	2,290	2,282	3,316	4,065	4,728
Sundry Debtors	2,318	3,758	4,311	5,233	5,851
Cash & bank balances	263	561	707	754	1,416
Loans and advances	455	458	539	508	591
Other current assets	21	31	36	45	52
Total current assets	5,347	7,090	8,909	10,604	12,639
Creditors	1,575	2,415	2,529	2,948	3,427
Other current liabilities and provision	306	1,090	1,343	1,736	1,908
Net current assets	3,466	3,585	5,037	5,921	7,304
Deferred Tax Asset/Others	-	-	-	-	-
Total Assets	6,934	7,132	8,826	9,747	11,348

Source: Company, Centrum Research Estimates

Exhibit 10: Cash Flow

Y/E March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	367	940	1,229	1,728	2,206
Depreciation	151	220	259	262	283
Change in working capital	(116)	189	(1,302)	(828)	(712)
Total tax paid	(62)	(427)	(480)	(587)	(750)
Others	592	993	710	559	548
Cash flow from oper. (a)	932	1,915	418	1,133	1,575
Capital expenditure	(321)	(299)	(539)	(300)	(500)
Change in investments	-	-	-	-	-
Others	1	6	42	47	74
Cash flow from inv. (b)	(320)	(294)	(497)	(253)	(426)
Free cash flow (a+b)	613	1,621	(80)	880	1,149
Equity raised/(repaid)	(0)	-	-	-	-
Debt raised/(repaid)	152	(566)	923	(59)	303
Dividend (incl. tax)	(18)	(160)	(160)	(160)	(160)
Others	(611)	(597)	(538)	(614)	(630)
Cash flow from fin. (c)	(478)	(1,323)	225	(833)	(487)
Net chg in cash (a+b+c)	135	298	146	47	662

Source: Company, Centrum Research Estimates

Appendix A

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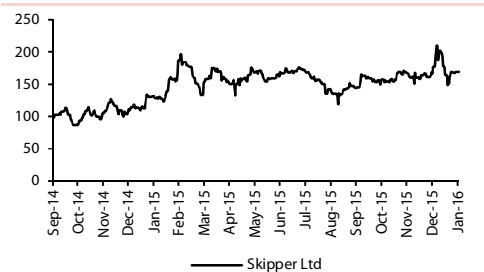
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Skipper Ltd. price chart



Source: Bloomberg, Centrum Research

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		Skipper
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Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

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Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Kavita Ravichandran

(022) 4215 9842; Email ID: Compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000