

## Skipper

## Accumulate

CMP	₹ 139
Target / Upside	₹ 145/5%
BSE Sensex	26,818
NSE Nifty	8,296

## Scrip Details

Equity / FV	₹ 102mn/₹ 1/-
Market Cap	₹ 14bn
	USD 212mn
52-week High/Low	₹ 220/122
Avg. Volume (no)	143,147
NSE Symbol	SKIPPER
Bloomberg Code	SKIPPER IN

## Shareholding Pattern Sept'16(%)

Promoters	72.4
MF/Banks/FIs	3.1
FIIIs	1.5
Public / Others	23.0

## Valuation (x)

	FY16	FY17E	FY18E
P/E	14.9	15.5	13.2
EV/EBITDA	8.2	7.7	6.7
ROE	27.8	21.9	21.6
ROCE	25.6	22.2	22.0

## Estimates (₹ mn)

	FY16	FY17E	FY18E
Net Sales	15,062	17,527	20,162
EBITDA	2,192	2,331	2,682
PAT	951	913	1,074
EPS	9.3	8.9	10.5

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Overall Q2FY17 performance of Skipper limited remain below our estimates. Sales remain in line but adjusted PAT remain lower than estimate by 11%. However, order inflow remained muted due to delay in ordering by Power Grid Corporation (PGCIL) and subdued inflow from overseas. We expect the book to bill ratio of skipper is unlikely to improve in the near term. We maintain 16% CAGR in sales over FY16-FY18E. We reduced our PAT CAGR from 11% to 6% owing to lower margin in the PVC business. We maintain Accumulate at 145 (7x FY18EV/EBITDA).

## Muted order inflow in Engineering products

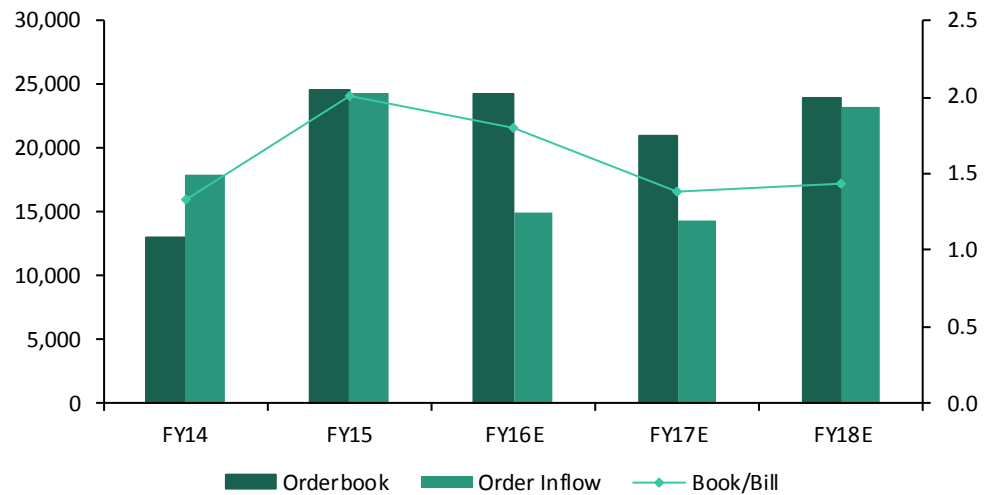
Sales grew 17% YoY to ₹ 4bn. PVC (66% YoY) and Infrastructure (218% on a low base) remain the key driver for growth. Engineering (Transmission) product sales grew 3% YoY. Sales remain 3% Lower than estimate. EBITDA dipped 9% YoY, largely due to dip in margin in Engineering products. Adjusting to the Forward contract revenue EBITDA was up 26% YoY. (Adjusted EBITDA remain 26% Lower than estimates) PAT reported at ₹ 226mn. Adjusted PAT was up 15% YoY. (Adjusted PAT remain 11% lower than estimate. Order inflow remain line with sales and order book stood at ₹ 23bn.

## Recommend Accumulate with TP of ₹ 145

Proven execution capabilities, strategic locational advantage backed by a strong balance sheet gives us comfort in Skipper. However, we remain concerned on the near-term growth of the engineering products business of the company (88% of Sales), due to (1) slow ordering by PGCIL and other SEBs in the domestic market and due to (2) yet-to-mature presence of the company in other global markets. Therefore, we see the current valuation fully factors the near to medium term potentials of the company. We recommend Accumulate with TP 145 7xEV/EBITDA (13% discount to our multiple for KEC International).

## Q2FY17 Result (₹ Mn)

Particulars	Q2FY17	Q1FY16	Q2FY16	QoQ(%)	YoY(%)
Net Sales	4,027	2,859	3,680	40.9	9.4
Expenditure	2,720	1,926	2,413	41.2	12.7
Other Expenditure	752	511	0	47.2	NA
Operation Profit	555	422	1,267	31.4	(56.2)
Other Income	7	8	26	(5.8)	(71.9)
Interest	150	160	114	(6.2)	31.5
Depreciation	72	67	58	6.3	24.0
PBT	341	203	1,121	68.1	(69.6)
Tax	114	65	161	74.6	(29.1)
Net Profit	226	137	960	65.1	(76.4)
Adj Profit	226	137	303	65.1	(25.3)
Gross Margin (%)	37.2	38.1	37.8		
Staff Cost (%)	3.8	4.3	2.4		
Other Expenditure (%)	18.7	17.9	0.0		
OPM(%)	13.8	14.8	34.4		
Tax Rate (%)	33.5	32.3	14.4		
NPM (%)	5.6	4.8	26.1		

**Exhibit 1: Order book, order flow and book to bill ratio**


Source: Dolat Research, Company

### Other highlights of conference Call

- Good monsoon led to rise in inventory
- Current order book stands at ₹ 23bn. The Inflow remains in line with sales during the quarter
- Currently 7bn orders are in pipeline. This is largely from the Raipu-Pugalur line (being re tendered) of Powergrid and the north eastern transmission line projects of Powergrid. Company expects it will remain the favorable vendor for Powergrid as the product price would be ₹ 2000 to ₹ 3000/ton (₹ 4500/ton cheaper when the Guwahati (adding 50000tons) plant is commissioned) cheaper than the other central india players.
- Management guided 10-12% rise in volume growth in Engineering Products 50% growth in Polymer business
- Starting HDPE pipe manufacturing in Hyderabad (That has business opportunity of ₹ 30bn)
- The Argentina TSO has decided to not to expand the contract that ended in September. Co is looking to work for other players. ₹ 450 cr. Export order ₹ 600 crore.
- The demonetization will have positive impact on the pipe business as the business would shift from the unorganized players.
- EBITDA in PVC is 10.5%. The contraction is due to marketing push.

**Income Statement**

Particulars	Mar15	Mar16	Mar17E	Mar18E
<b>Net Sales</b>	<b>13,128</b>	<b>15,062</b>	<b>17,527</b>	<b>20,162</b>
Total Income	13,128	15,062	17,527	20,162
Total Expenditure	10,976	12,870	15,196	17,481
Cost of materials cons	8,797	9,485	11,042	12,702
Employee Benefits Exp	341	500	789	847
Other Expenses	1,838	2,885	3,365	3,932
Other Income	17	52	84	84
<b>EBIDTA (Excl. OI)</b>	<b>2,151</b>	<b>2,192</b>	<b>2,331</b>	<b>2,682</b>
<b>EBIDTA (Incl. OI)</b>	<b>2,168</b>	<b>2,244</b>	<b>2,415</b>	<b>2,766</b>
Interest	583	570	765	885
Depreciation	220	241	287	301
PBT & EO Items	1,365	1,433	1,363	1,580
Profit Before Tax	1,365	1,433	1,363	1,580
Tax	474	482	450	505
<b>Net Profit</b>	<b>891</b>	<b>951</b>	<b>913</b>	<b>1,074</b>

**Balance Sheet**

Particulars	Mar15	Mar16	Mar17E	Mar18E
<b>Sources of Funds</b>				
Equity Capital	102	102	102	102
Other Reserves	2,936	3,713	4,433	5,303
<b>Net Worth</b>	<b>3,039</b>	<b>3,815</b>	<b>4,536</b>	<b>5,405</b>
Secured Loans	1,288	1,983	2,000	2,100
Unsecured Loans	2,540	2,419	3,800	3,900
<b>Loan Funds</b>	<b>3,829</b>	<b>4,403</b>	<b>5,800</b>	<b>6,000</b>
Deferred Tax Liability	265	315	315	315
<b>Total Capital Employed</b>	<b>7,132</b>	<b>8,533</b>	<b>10,650</b>	<b>11,720</b>
<b>Applications of Funds</b>				
Gross Block	3,513	4,182	4,115	4,114
<b>Net Block</b>	<b>3,513</b>	<b>4,182</b>	<b>4,115</b>	<b>4,114</b>
Capital Work in Progress	35	70	70	70
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	2,282	2,500	4,322	5,248
Sundry Debtors	3,758	3,724	4,322	4,972
Cash and Bank Balance	561	498	2,048	2,178
Loans and Advances	488	929	720	829
<i>sub total</i>	7,090	7,651	11,412	13,226
<b>Less : Current Liabilities &amp; Provisions</b>				
Current Liabilities	3,295	3,163	4,706	5,413
Provisions	210	207	241	277
<i>sub total</i>	3,505	3,370	4,946	5,690
Net Current Assets	3,585	4,281	6,466	7,536
<b>Total Assets</b>	<b>7,132</b>	<b>8,533</b>	<b>10,650</b>	<b>11,720</b>

E – Estimates

**Cash Flow**

Particulars	Mar15	Mar16	Mar17E	Mar18E
<b>Profit before tax</b>	<b>1,365</b>	<b>1,433</b>	<b>1,363</b>	<b>1,580</b>
Depreciation & w.o.	220	241	287	301
Net Interest Exp	583	570	765	885
Direct taxes paid	(474)	(482)	(450)	(505)
Change in Working Capital	12,361	(759)	(635)	(940)
Other	(9,553)	(95)	(186)	(192)
<b>(A) CF from Opt. Activities</b>	<b>4,501</b>	<b>908</b>	<b>1,145</b>	<b>1,128</b>
Capex	10,152	(704)	67	1
<b>Free Cash Flow</b>	<b>14,654</b>	<b>204</b>	<b>1,212</b>	<b>1,129</b>
<b>(B) CF from Invt. Activities</b>	<b>10,152</b>	<b>(704)</b>	<b>67</b>	<b>1</b>
Inc./(Dec.) in Debt	(14,266)	574	1,397	200
Interest exp net	(583)	(570)	(765)	(885)
Dividend Paid (Incl. Tax)	0	0	0	0
<b>(C) CF from Financing</b>	<b>(15,261)</b>	<b>4</b>	<b>632</b>	<b>(685)</b>
Net Change in Cash	(607)	208	1,844	444
Opening Cash balances	1,440	561	498	2,048
Closing Cash balances	561	498	2,048	2,178

**Important Ratios**

Particulars	Mar15	Mar16	Mar17E	Mar18E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Margin (excl. O.I.)	16.4	14.6	13.3	13.3
Interest / Sales	4.4	3.8	4.4	4.4
Tax/PBT	34.7	33.6	33.0	32.0
Net Profit Margin	6.8	6.3	5.2	5.3
<b>(B) As Percentage of Net Sales</b>				
Employee Benefits Expense	2.6	3.3	4.5	4.2
Other Expenses	14.0	19.2	19.2	19.5
<b>(C) Measures of Financial Status</b>				
Debt / Equity (x)	1.3	1.2	1.3	1.1
Interest Coverage (x)	3.7	3.9	3.2	3.1
Average Cost Of Debt (%)	5.3	13.9	15.0	15.0
Debtors Period (days)	104	90	90	90
Closing stock (days)	63.5	60.6	90.0	95.0
Inventory Turn. Ratio (x)	5.8	6.0	4.1	3.8
WC Turnover (x)	3.7	3.5	2.7	2.7
Non Cash WC (₹ Mn)	3,024	3,783	4,417	5,358
<b>(D) Measures of Investment</b>				
EPS (₹) (excl EO)	8.7	9.3	8.9	10.5
CEPS (₹)	10.9	11.7	11.7	13.4
Profit Ploughback (%)	100.0	100.0	100.0	100.0
Book Value (₹)	29.7	37.3	44.3	52.8
RoANW (%)	11.9	27.8	21.9	21.6
RoACE (%)	10.3	25.6	22.2	22.0
RoAIC (%)	10.9	27.4	25.6	27.2
<b>(E) Valuation Ratios</b>				
CMP (₹)	139	139	139	139
P/E (x)	15.9	14.9	15.5	13.2
Market Cap. (₹ Mn)	14,179	14,181	14,181	14,181
MCap/ Sales (x)	1.1	0.9	0.8	0.7
EV (₹ Mn)	17,446	18,086	17,933	18,003
EV/Sales (x)	1.3	1.2	1.0	0.9
EV/EBDITA (x)	8.1	8.2	7.7	6.7
P/BV (x)	4.7	3.7	3.1	2.6

E – Estimates

**Stock price return objective (12 Months)**

<b>Buy</b>	<b>&gt; 15%</b>
<b>Accumulate</b>	<b>5 to 15%</b>
<b>Reduce</b>	<b>(-5) to 5%</b>
<b>Sell</b>	<b>&lt; -5%</b>

***Dolat Team***

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**Dolat Capital Market Pvt. Ltd.**

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