



Previous Rating: Buy

Current Rating: Buy

**Dismal performance continues**

CMP (Rs)	92
Target Price(Rs)	151
Upside (%)	64.7
Prev. Target (Rs)	242
<b>Share Holding (%) 30<sup>th</sup> September, 2018</b>	
Promoter	71.4
Institutions	16.1
Others	12.5
<b>Total</b>	<b>100.0</b>
Avg Vol (6m) (000)	176.03
FV	1
Beta	0.91
Mcap (Rs Mn)	9,240
52 week H/L	293 / 86
Bloomberg/Reuters	SKIPPER IN / SKIP.BO
Group	B / S&P BSE SmallCap
Sensex/Nifty	35,457 / 10,682
<b>ABS (%) S&amp;P BSE SmallCap Skipper</b>	
3 M	(7.5) (29.9)
1 Yr	(17.0) (64.3)

**2QFY19 result highlights :**

**Revenue:** Skipper 2QFY19 revenues reported 1.6% YoY rise to Rs 5,240 mn although much better than 1QFY19. Engineering business grew 3.1% / 18.2% on YoY / QoQ basis respectively to Rs 4776 mn. Polymer business revenue growth was disappointing with 16.1%/36%, YoY/ QoQ decline respectively to Rs 359 mn. Infrastructure segment reported revenues of Rs 105 mn for the quarter up 10.4% YoY but down 43.6% QoQ.

**EBITDA:** EBITDA fell by 21.4% to Rs 535 mn while EBITDA margin contracted to 10.2% Vs 13.2% in 2QFY18 and 10.6% in 1QFY19. EBITDA margin for Engineering division came at 11% down from 12.9% in 2QFY18 mainly due to higher share of fixed price contracts as high RM costs hit margins. Polymer EBITDA margin improved 40bps to 1.6% but pressure on margin continues with higher spend on sales reach expenses. For corresponding period EBITDA margin was as high as 11.1%. Poor sales with sharp dip in EBITDA margin has dampened overall profitability of the company. Despite rise in revenues in infrastructure segment , EBITDA margin fell sharply to 2.1% from 11.5%/12.9% on 2QFY18/1QFY19 resp.

**Net profit:** Net profit fell to Rs 25 mn Vs Rs 232 mn in 2QFY18 and 45mn in 1QFY19. This is after accounting for Rs 146.6 mn of forex loss. Depreciation provision was lower by ~20% however due to higher working capital loan, finance cost was higher 28.1% YoY.

**Outlook and Valuation**

Multiple headwinds like higher share of fixed price contracts in engineering division coupled with high metal prices and continued poor performance from polymer division along with profitability deterioration of infra resulted into fall in EBITDA margin as well as bottomline. Further the polymer business demerger into separate entity and shift of polymer plant would disturb the production for 2HFY19. However order book of Rs 24.5 bn (1.4x FY18 Eng sales) gives us strong revenue visibility. We are revising our price target to Rs 151 by valuing core and polymer business separately , however retain our “Buy” rating.

Rs mn	Revenues	EBITDAM (%)	PAT	EPS	PE (x)	PBV (x)	EV/EBITDA (x)	RoCE (%)	RoE (%)
FY17	16,646	13.2%	1,242	12.1	7.6	1.8	6.0	26.1	23.4
FY18	20,737	13.4%	1,178	11.5	8.0	1.5	5.0	24.0	18.6
FY19E	22,800	10.3%	613	6.0	15.4	1.4	6.5	22.4	12.1
FY20E	26,428	12.8%	1,441	14.0	6.5	1.2	4.4	16.1	17.7

## Quarterly Performance

INR in Mn	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	1HFY19	1HFY18	YoY %Chg.
Total Revenue	5,240	5,156	1.6%	4,787	9.5%	10,027	9,144	9.6%
Raw Material	3,630	3,458	5.0%	3,253	11.6%	6,883	5,928	16.1%
Other expenses	839	767	9.4%	791	6.0%	1,630	1,668	-2.3%
Employee Cost	236	251	-6.0%	235	0.7%	471	461	2.0%
Total Expenditure	4,705	4,476	5.1%	4,279	10.0%	8,984	8,057	11.5%
EBITDA	535	680	-21.4%	508	5.2%	1,043	1,087	-4.1%
Depreciation	97	121	-19.9%	115	-16.2%	212	228	-7.1%
Other Income	3	3	3.4%	3	4.0%	7	11	-38.7%
EBIT	441	563	-21.6%	396	11.4%	838	870	-3.7%
Finance cost	257	200	28.1%	274	-6.4%	531	369	43.8%
Exceptional & forex Items	(147)	2		(59)		(205)	112	
PBT	38	365	-89.5%	64	-39.9%	102	613	-83.3%
Tax	13	133	-89.9%	19	-28.9%	32	221	-85.4%
PAT	25	232	-89.3%	45	-44.6%	70	392	-82.2%
PAT after comprehensive income	24	232	-89.6%	44	-45.4%	68	392	-82.6%
Adj EPS	0.2	2.3	-89.3%	0.4	-44.6%	0.7	3.8	-82.2%
No of shares	102.40	102.40		102.40		102	102	

% of Total Revenue	2QFY19	2QFY18		1QFY19		1HFY19	1HFY18	
Raw Material	69.3%	67.1%		68.0%		68.6%	64.8%	
Other expense	16.0%	14.9%		16.5%		16.3%	18.2%	
Employee Cost	4.5%	4.9%		4.9%		4.7%	5.0%	
Total Expenditure	89.8%	86.8%		89.4%		89.6%	88.1%	
EBITDA	10.2%	13.2%		10.6%		10.4%	11.9%	
Other Income	0.1%	0.1%		0.1%		0.1%	0.1%	
PAT	0.5%	4.5%		0.9%		0.7%	4.3%	
Tax	34.9%	36.4%		29.5%		31.5%	36.0%	

## Segmental performance

INR in Mn	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	1HFY19	1HFY18	YoY %Chg.
<b>Revenues</b>								
Engineering	4,776	4,634	3.1%	4,041	18.2%	8,817	8,285	6.4%
Polymers	359	428	-16.1%	561	-36.0%	920	861	6.8%
Infrastructure projects	105	95	10.4%	185	-43.6%	290	338	-14.2%
Gross sales	5,240	5,156	1.6%	4,787	9.5%	10,027	9,483	5.7%
Excise	-	-	-	-	-	-	339	-
<b>Total Revenue</b>	<b>5,240</b>	<b>5,156</b>	<b>1.6%</b>	<b>4,787</b>	<b>9.5%</b>	<b>10,027</b>	<b>9,144</b>	<b>9.6%</b>
<b>EBIDTA</b>								
Engineering	527	600	-12.2%	478	10.1%	1,005	940	6.8%
Margin %	11.0%	12.9%		11.8%		11.4%	11.3%	
Polymers	6	48	-87.6%	7	PL	12	83	-85.1%
Margin %	1.6%	11.1%		1.2%		1.3%	9.7%	
Infrastructure projects	2.2	10.9	-79.8%	23.8	-90.8%	26	41	
Margin %	2.1%	11.5%		12.9%		9.0%	12.2%	
<b>Overall EBITDA</b>	<b>535</b>	<b>658</b>	<b>-18.8%</b>	<b>508</b>	<b>5.2%</b>	<b>1,043</b>	<b>1,065</b>	<b>-2.0%</b>
<b>Overall EBITDA margin (%)</b>	<b>10.2%</b>	<b>12.8%</b>		<b>10.6%</b>		<b>10.4%</b>	<b>11.6%</b>	
<b>EBIT</b>								
Engineering	380	606	-37.4%	402	-5.5%	782	1,046	-25.2%
Margin %	7.9%	13.1%		9.9%		8.9%	12.6%	
Polymers	(11)	28	PL	(7)	PL	(18)	59	-130.9%
Margin %	-3.0%	6.6%		-1.3%		-2.0%	6.9%	
Infrastructure projects	0.4	11.3	-96.2%	24	-98.2%	24	41	
Margin %	0.4%	11.9%		12.9%		8.4%	12.1%	
<b>Overall EBIT before unallocable items</b>	<b>369</b>	<b>645</b>	<b>-42.8%</b>	<b>418</b>	<b>-11.7%</b>	<b>787</b>	<b>1,145</b>	<b>-31.2%</b>
<b>Overall EBIT margin (%)</b>	<b>7.0%</b>	<b>12.5%</b>		<b>8.7%</b>		<b>7.9%</b>	<b>12.5%</b>	

## Polymer business – recent developments

1. Skipper has decided to de-merge its polymer pipe business into Skipper Pipes Ltd.
2. Pipe business contributes ~11% of total revenues with lower single digit EBITDA margin.
3. The exchange ratio is 1:1 i.e. for every 1 equity share held in Skipper, 1 equity share of Skipper Pipe of FV Rs 1 will be issued.
4. Skipper and SPL would have its own management teams, separate Directors, who can chart out their own independent strategies to maximize value creation for their respective stakeholders.
5. The Demerger shall also enable focus approach for both the businesses.
6. Mr Siddharth Bansal who looks after the polymer business currently is likely to head the business of SPL.
7. Post demerger and necessary approval, the management has indicated that Skipper Pipes will also be listed on BSE & NSE. The demerger process is expected to be completed by end of FY19 post NCLT and stakeholder's approval.
8. Further as a part of cost reduction initiative and optimization of capacity utilization in the markets where the company holds strong foothold, the management has decided to shift the polymer pipe manufacturing facility of the company situated at Telangana and Skindrabad to Uluberia, West Bengal by transfer of plant and machinery and other accessories.
9. As the company has asset light model for polymer business, the shifting will reduce the fixed cost without impacting its overall capacities which is at 51,000 MT p.a. Telangana and Skindrabad units have total installed capacity of 15,000 MT per annum while Uluberia plant has total installed capacity of 15,000 MT which will become 30,000 MT per annum.

## Revision in estimates

Post 2QFY19 performance , we are revising our earning estimates accommodating adjustments for higher fixed price component in engineering order book, higher raw material prices, lower average realization on account of company's strategy of garnering higher share of new railway business, polymer business challenges in terms of sales expansion efforts at higher costs and poor infra segment profitability.

Further, the company has also indicated there is reduction in payable days affecting cash conversion cycle and need for higher working capital with higher finance costs. The company further indicated, the change in depreciation policy as per guidelines of Indian accounting standards towards usable life of assets.

Accordingly our EPS estimates stands revised to Rs 6 / 14 Vs our earlier estimates of Rs 14.8 /17.1 respectively.

Rs Mn	FY19 Old	FY19 New	% change	FY20 Old	FY20 New	% change
Revenues	24,626	22,800	-7.4%	27,525	26,428	-4.0%
EBITDA	3,010	2,356	-21.7%	3,532	3,380	-4.3%
EBITAM (%)	12.2%	10.3%		12.8%	12.8%	
Net profit	1,256	613	-51.2%	1,612	1,441	-10.6%
EPS	12.2	6.0	-51.2%	15.7	14.0	-10.6%

## Revision in target price

Post company's decision to demerge its polymer business into a separate entity, we are revising our target price by valuing its core business and polymer business separately.

Accordingly, we have used EV/EBITDA based on FY20E estimates and arrive at SOTP valuation of Rs 151 Vs our earlier consolidated P/E based price target of Rs 242. Company has garnered new order worth Rs 4,100 mn during the quarter for engineering business and its current order book stands at Rs 24,500 mn which gives us revenue visibility of 1.4x FY18 for engineering business.

Polymer division restructuring into a separate entity is positive as it would enable the management to the focus on core engineering business. Further, the various efforts for enhancing polymer sales and capacity rationalization would enable company to grow its polymer segment with enhance profitability although next 3-4 quarters to witness profitability pressures.

Segments	Sales FY20 Rs mn	EBITDAM%	EBITDA Rs mn	EV multiple xs	Total Value
Engineering	23362	13.4%	3131	6	18783
Polymers	2219	7.0%	155	4	621
Infra	846	10.5%	89	6	533
<b>Total</b>					<b>19938</b>
Less: Debt					4613
Add: cash					176
Proposed market cap					15501
No of Equity shares					103
<b>Value per share</b>					<b>151</b>
<b>CMP</b>					<b>91.8</b>
<b>Upside potential</b>					<b>64.7%</b>
Core business valuation (Rs mn)					14879.1
<b>Core value per share (Rs)</b>					<b>145</b>
Polymer valuation (rs mn)					621.4
<b>Core value per share (Rs)</b>					<b>6</b>
<b>Total value of shares (rs)</b>					<b>151</b>

## Financial Summary

Income statement (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Total revenues</b>	<b>15,062</b>	<b>16,646</b>	<b>20,737</b>	<b>22,800</b>	<b>26,428</b>
% growth	14.7%	10.5%	24.6%	9.9%	15.9%
Operating expenses	(12,666)	(14,445)	(17,967)	(20,444)	(23,048)
<b>EBITDA</b>	<b>2396</b>	<b>2,201</b>	<b>2,770</b>	<b>2,356</b>	<b>3,380</b>
% growth	6.1%	-8.1%	25.8%	-14.9%	43.5%
Depreciation	(241)	(316)	(459)	(456)	(489)
<b>EBIT</b>	<b>2155</b>	<b>1,886</b>	<b>2,311</b>	<b>1,901</b>	<b>2,891</b>
Interest	(648)	(676)	(793)	(925)	(857)
Other Income	52	558	298	114	198
Exceptional items	(125)	(1)	(12)	(150)	(25)
<b>PBT</b>	<b>1433</b>	<b>1,767</b>	<b>1,804</b>	<b>939</b>	<b>2,207</b>
Tax	(482)	(525)	(626)	(326)	(766)
<b>PAT before MI and others</b>	<b>951</b>	<b>1,242</b>	<b>1,178</b>	<b>613</b>	<b>1,441</b>
<b>EPS</b>	<b>9.3</b>	<b>12.1</b>	<b>11.5</b>	<b>6.0</b>	<b>14.0</b>
% growth	6.7%	30.6%	-5.4%	-48.0%	135.0%

Cash flow (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Profit before tax	1,433	1,767	1,804	939	2,207
Depreciation	241	316	459	456	489
Change in working capital	(551)	(283)	(2,177)	(2,068)	(692)
Total tax paid	(432)	(452)	(476)	(326)	(766)
Others	(214)	413	1,194	1,075	882
<b>Cash flow from operation (a)</b>	<b>477</b>	<b>1,760</b>	<b>804</b>	<b>76</b>	<b>2,121</b>
Capital expenditure	(947)	(939)	(499)	(550)	(500)
Change in investments	-	117	67	-	-
Others	-	30	14	-	-
<b>Cash flow from investing (b)</b>	<b>(947)</b>	<b>(791)</b>	<b>(419)</b>	<b>(550)</b>	<b>(500)</b>
Free cash flow (a+b)	(470)	969	386	(474)	1,621
Equity / pref raised / redeemed	-	-	27	0	-
Debt raised/(repaid)	1,073	(257)	564	1,350	(500)
Dividend (incl. tax)	(160)	(172)	(191)	(81)	(238)
Others	(583)	(671)	(793)	(925)	(857)
<b>Cash flow from financing (c)</b>	<b>330</b>	<b>(1,100)</b>	<b>(392)</b>	<b>344</b>	<b>(1,595)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(140)</b>	<b>(132)</b>	<b>(7)</b>	<b>(130)</b>	<b>26</b>

Balance Sheet (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	102	102	103	103	103
Pref Share Capital	-	-	-	-	-
Reserves & Surplus	3,675	5,191	6,223	6,755	7,959
Total Networkth	3,778	5,321	6,373	6,905	8,109
Total Debt	4,504	4,154	4,613	5,963	5,463
Other non-current liabilities	328	651	588	588	588
Other current liability	3,255	3,782	5,861	4,647	5,382
<b>Total Liabilities</b>	<b>11,902</b>	<b>13,909</b>	<b>17,435</b>	<b>18,104</b>	<b>19,542</b>
Net Fixed Assets	4,215	5,112	5,224	5,319	5,330
Investments	-	-	-	-	-
Long term advance & Other NCA	22	164	38	38	38
Debtors and Inventory	6,224	7,404	10,787	11,452	12,655
(A) Cash & current investment	146	249	176	46	72
(B) Other current assets	1,259	979	1,210	1,249	1,448
<b>Total Assets</b>	<b>11,866</b>	<b>13,909</b>	<b>17,435</b>	<b>18,104</b>	<b>19,542</b>

Ratio analysis	FY16	FY17	FY18	FY19E	FY20E
EBIDTA margin (%)	15.9	13.2	13.4	10.3	12.8
PAT margin (%)	6.3	7.5	5.7	2.7	5.5
ROCE (%)	28.8	26.1	24.0	16.1	22.4
ROE (%)	27.4	23.4	18.6	12.1	17.7
Asset Turnover	3.6	3.3	4.0	4.3	5.0
Inventory days	96	123	155	140	130
Receivable days	90	82	91	90	90
Payable days	82	97	135	85	90
Debt to equity	1.2	0.8	0.7	0.9	0.7

Valuation parameters	FY16	FY17	FY18	FY19E	FY20E
EPS	9.3	12.1	11.5	6.0	14.0
P/E (x)	9.9	7.6	8.0	15.4	6.5
EV/ EBIDTA (x)	5.7	6.0	5.0	6.5	4.4
EV/ Sales (x)	0.9	0.8	0.7	0.7	0.6
P/BV (x)	2.5	1.8	1.5	1.4	1.2

### Stock rating (1 year target scale)

<0%	-	Sell
0-10%	-	Reduce
10-30%	-	Accumulate
>30%	-	Buy

### Disclaimer & Disclosure

East India Securities Ltd (hereinafter referred as 'EISEC') is a financial services firm registered as Research Analyst with SEBI - Registration Number – INH300003231. The Author of the report does not hold any share in the company/ies discussed in this document. EISEC and its associated companies may hold shares in the company/ies discussed in this document.

This document is confidential and is supplied to you for information purposes only. It should not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever, without the consent of EISEC.

This document is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity, who is a citizen or resident or located in any locality, state, country or other jurisdiction, where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject EISEC to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored.

This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. Our investment recommendations are general in nature and available electronically/in printed form to our clients. Before acting on any advice or recommendation in this document, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Information herein is believed to be reliable but EISEC do not warrant its completeness or accuracy. The views/opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice. This document should not be construed as an offer to sell or solicitation of an offer to buy any security in any jurisdiction. EISEC and its affiliates, its directors, analyst and employees will not be responsible for any loss or liability incurred to any person as a consequence of his or any other person on his behalf taking any investment decisions based on this document.



**Corporate Office:** 201, Garnet palladium, Pandit Motilal Nehru Marg, Panch Bawadi, Malad East, Mumbai – 400 097. Tel: +91 22 6192 5353

**Head Office:** DA-14, Salt Lake City, Sector-I, Kolkata – 700064. Tel: +91 33 40205901.

**Web:** [www.eisec.com](http://www.eisec.com)