Skipper

BUY

INDUSTRY	CAPITAL GOODS
CMP *(As on 13 Apr 2017)*	**Rs 185**
Target Price	**Rs 220**
Nifty	9,151
Sensex	29,461
KEY STOCK DATA	
Bloomberg	SKIPPER IN
No. of Shares (mn)	102
MCap (Rs bn) / ($ mn)	19/294
6m avg traded value (Rs mn)	26

STOCK PERFORMANCE (%)

52 Week high / low	Rs 195/125		
	3M	6M	12M
Absolute (%)	21.1	20.6	18.9
Relative (%)	12.9	14.0	4.0

SHAREHOLDING PATTERN (%)

Promoters	70.41
FIs & Local MFs	10.87
FPIs	1.52
Public & Others	17.20

Source : BSE

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Multiple growth drivers

Skipper Ltd (Skipper) is a leading Indian manufacturer of transmission towers and accessories. The company enjoys cost advantages from backward integration and location. These impart stability to its superior margin profile.

India's power transmission sector (led by Power Grid) has seen resilient capex and on-ground execution over last 7-8 years. Improving visibility on state power capex (driven by UDAY) can provide icing on the cake. Despite the buoyant environment, Skipper has expanded capacity conservatively, thereby achieving high utilization, operating leverage and consuming capital slowly. Thus debt is flat at ~Rs 4-5bn and D/E has declined (from 1.9x in FY14 to 1.2x in FY16), even as capacity has doubled.

This capital conservatism is also evident in the asset light model Skipper has opted for in its Polymer business (UPVC/CPVC pipes). This segment also has a promising outlook with growth expectations of ~15% and a shift from unorganized to organized segment as GST kicks in.

We expect Skipper to report PAT CAGR of ~16.7% over FY16-19E, with ROEs consistently over 20%. In contrast, valuations (12.6x FY19E EPS) look attractive, both on relative and absolute basis. Initiate coverage with a BUY and TP of Rs 220/share (15x FY19E EPS), implying 19% upside from current levels.

Key takeaways from our recent interactions

- Skipper has a meaningful contribution from exports (40% of FY16 revenues). Given the sporadic nature of order flows from individual countries, it is diversifying from Latam to other regions like Africa and South Asia. In addition to PWGR, state capex is also improving, given the need for sub-transmission capex and availability of funding from multilateral institutions like ADB, World Bank, KFW and others. While leading EPC players (KEC & Kalpataru) have their captive tower manufacturing, several others have limited or no capacity. Given its cost competitiveness, Skipper has been a supplier to most leading EPC contractors.
- Skipper's polymer segment posted ~47% CAGR over FY13-16. We expect growth to continue, driven by demand tailwinds as well as Skipper's key partnerships (Sekisui and Wavin group), aimed at achieving premium brand positioning and product differentiation (CPVC).

Financial Summary: Standalone

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	13,128	15,062	17,188	19,456	22,228
EBITDA	2,149	2,204	2,325	2,697	3,100
APAT	893	943	973	1,210	1,500
Diluted EPS (Rs)	8.7	9.2	9.5	11.8	14.7
P/E (x)	21.2	20.1	19.5	15.6	12.6
EV / EBITDA (x)	10.3	10.5	10.1	8.6	7.4
RoE (%)	33.4	27.5	23.1	23.7	23.9

Source: Company, HDFC sec Inst Research

Unlike other large tower manufacturers, Skipper benefits from being a fully backward-integrated player

Skipper has increased its tower manufacturing capacity from 100,000 MTPA in FY13 to 230,000 MTPA in FY17 end

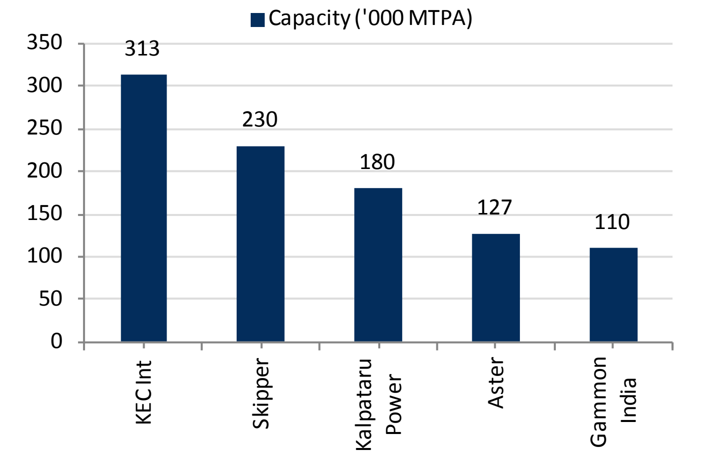
Utilisation levels for the tower manufacturing capacity have been consistently over 70%. Over the last two years, they have risen to ~90%.

The company has been able to fund its capacity expansion across both segments (engineering products and polymers), largely through internal accruals, while maintaining its debt levels

Leading tower manufacturer with strong competitive advantages

- Skipper is one of the largest tower manufacturing companies in India. Unlike other companies in a similar space, Skipper is fully backward integrated. It enjoys economies of scale, as it has a large manufacturing plant in Howrah (West Bengal). Importantly, Skipper is also horizontally well integrated as it manufactures poles, fasteners, solar structures and other tower accessories.
- Unlike India, EPC companies worldwide generally focus only on contracting / project management, with another set of players focusing only on tower manufacturing. Among the larger companies in India, KEC and Kalpataru Power have significant tower manufacturing facilities.

Tower Capacity Of Key Players



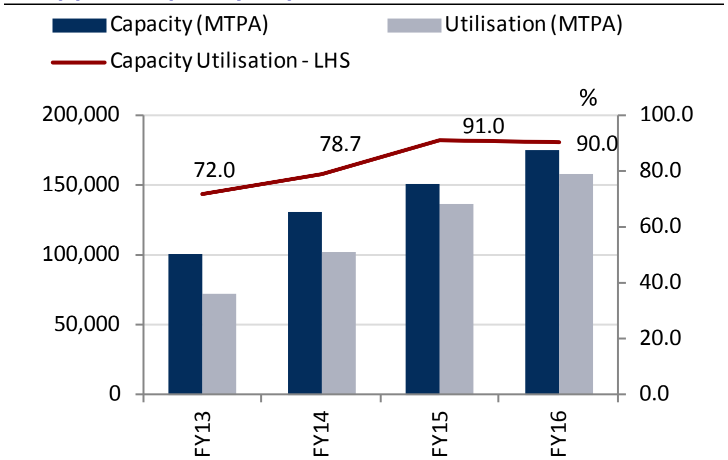
Source : Company, HDFC sec Inst Research

- However, there exist several other players with limited or no tower manufacturing facilities, like Tata Projects, L&T, EMC and Emco, among others. Skipper is one of the largest suppliers to such companies. Skipper also supplies towers/angles to players with captive capacities, owing to its competitive cost advantages.

Disciplined capacity expansion, high utilisation

- Over the last 4 years, Skipper has increased its tower manufacturing capacity from 100,000 MTPA in FY13 to 230,000 MTPA in FY17 end. It is important to note is that a 30,000 MTPA capacity was commissioned only in Mar-17. Hence, the usable capacity stood at only 200,000 MTPA in FY17.
- Despite doubling of capacity, the company has been able to maintain utilisation levels of over 70% on a consistent basis. In fact, utilisation in the last two years has been over 90%. This is primarily because of gradual capacity addition in a disciplined manner. This has enabled the company to seize opportunities without straining its cash flows and balance sheet.
- Despite expanding its capacity across both businesses (engineering products and polymers), debt has remained flat at ~Rs 4-5bn, and the D/E has declined from 1.9x in FY14 to 1.2x in FY16.

Skipper: Capacity Expansion And Utilisation Ratio



Source : Company, HDFC sec Inst Research

Unlike its competitors, Skipper procures steel billets. Further, there is in-house angle manufacturing, followed by tower manufacturing and galvanising.

Having tower manufacturing capacities closer to steel manufacturing hubs (in the eastern region), enables Skipper to lower its logistics costs

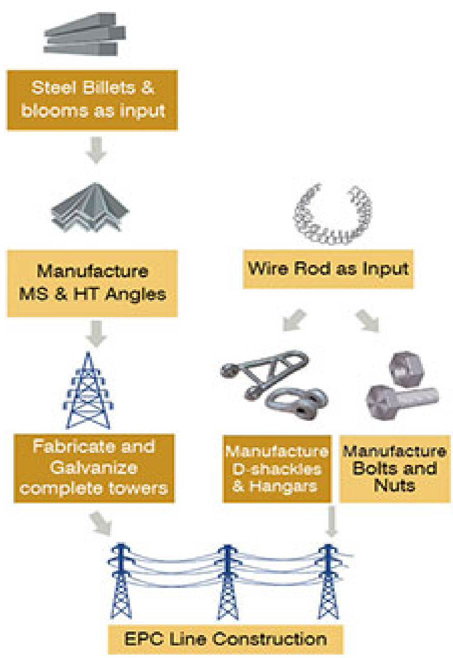
Confluence of lower logistics costs and higher value addition (due to integrated capacities) enables the company to have ~13-14% margins in the engineering products segment

Integrated operations drive margins

- Skipper, unlike its competitors, has an integrated manufacturing facility (refer chart below). The company procures steel billets and manufactures angles in-house, followed by tower manufacturing and galvanising. Other transmission tower manufacturers directly procure angles from steel rollers to manufacture the end product.

- Integrated manufacturing not only enables the company to control the entire value chain, but also to earn re-rolling margins. Integrated capacity is vital, as there are not many steel rollers in the eastern part of the country. Due to this advantage, Skipper ends being more competitive even to other EPC contractors with captive tower manufacturing capacity.

Integrated Manufacturing Process

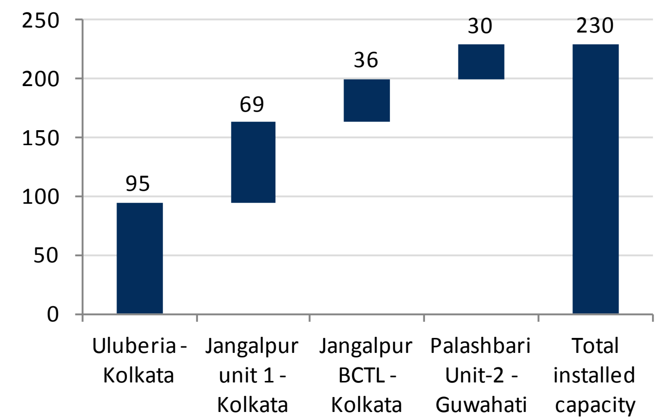


Source : Company, HDFC sec Inst Research

- Skipper has its entire tower manufacturing capacity in the eastern region (Howrah and Guwahati), closer to the steel manufacturing hubs in the country. This is unlike its competitors like KEC and Kalpataru Power, who have factories in the western and central part of India. This helps the company lower its logistics costs for its input products.

- On the output side also, Skipper's logistic costs are similar (vs. competitors) in the northern and southern regions. The savings made on the input side by Skipper offsets the advantage enjoyed by the competitors in the western region.

Skipper Capacity With Location ('000 MTPA)



Source : Company, HDFC sec Inst Research

- A confluence of lower logistics costs (proximity to steel manufacturers) and higher value addition (due to integrated capacities) enables the company to have ~13-14% margins in the engineering products segment. With these benefits being sustainable, the company is confident of maintaining its margins (~13.5% levels) in the coming years.

The transmission capex is pegged at Rs 2.6tn in the 13th Plan, a jump of 44% over the 12th Plan. It is split equally between inter-state and intra-state.

The renewable capacity is concentrated to only a few parts of the country, and this increases the need for inter-state connectivity

In a transmission-line turnkey project, the tower component represents ~30-35% of the total package cost. This implies an opportunity size of ~Rs 500bn over the next 5 years for Skipper in the domestic T&D space.

13th Plan investments pegged at Rs 2.6tn

- The 13th Plan envisages a transmission capex of Rs 2.6tn, a steep jump from Rs 1.8tn in the 12th Plan and Rs 1.2tn in the 11th Plan. About 50% of the total capex will be spent on creating/strengthening the inter-state transmission system, the balance 50% will be spent on intra-state systems.
- The 13th Plan investments will not only strengthen the existing inter-region corridors, but will also create new ones. The need for a robust transmission system has increased with the advent of renewables.
- As the renewable capacity is concentrated in a few parts of the country (90% of wind installations in 6 states and ~35% of the solar capacities are expected to be installed only in Rajasthan), there is a greater need for strong inter-region connectivity.

Towers: A major component of transmission capex

- As highlighted in the table below, the pure transmission line capex is likely to be ~Rs 1.65tn over the FY18-22E period. In a transmission line turnkey project, the tower component is ~30-35% of the total package, thereby presenting an opportunity of ~Rs 500bn over the next 5 years.
- For Skipper, this implies an annual opportunity of Rs 100bn vs. its domestic revenue of just Rs 7.3bn in FY16. We believe a confluence of steady PGCIL capex and growth in state capex should comfortably enable the company to grow its domestic revenues by ~10% over the next 2-3 years.
- In our note below, we have highlighted the increasing confidence on state capex. In addition, there also exist opportunities in the export market, which provide adequate growth visibility for Skipper.

Transmission Capex: Steep Jump In 13th Plan

Particulars (Rs bn)	12th plan	13th plan	% growth
Transmission capex	1,800	2,600	44%
Inter-state	1,100	1,300	18%
Intra-state	700	1,300	86%
		Transmission Line	Substation
13th Plan opportunity size between transmission and substation		65%	35%
		1,690	910
Transmission Line capex breakdown (indicative estimate)		**(%)**	**Rs bn**
Towers		30-35%	500
Conductors		30-35%	500
Design, Engineering and EPC		30-35%	690
Total		**100%**	**1,690**

Source : CEA, HDFC sec Inst Research

PWGR has doubled India's inter-region transmission capacity from 27,750 MW (11th Plan) to 57,450 MW (12th Plan)

We expect PWGR to spend ~Rs 1.2-1.3tn over the next 5-7 years (vs Rs 1tn over past 5-7 years)

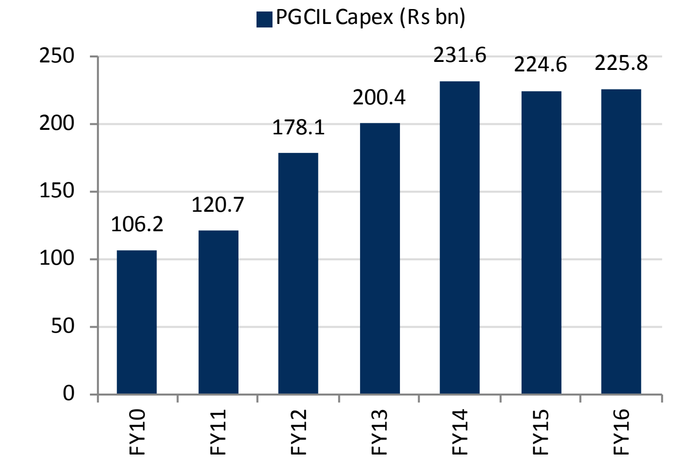
State transmission systems are likely to get a further push with an increasing demand for power (increasing rural electrification and easing of discom financials)

Unlike discoms, most of the state transcos are profit making, and have an easy access to debt funds from PFC/REC

PWGR steady, state capex picking up

- PWGR has been at the forefront in driving the transmission capex in India. Its business model, wherein earning growth is directly linked to capex, provides the necessary thrust for investments in the sector.
- Led by a strong capex programme, PWGR more than doubled India's inter-region transmission capacity in the 12th Plan. It went up from 27,750 MW at the end of the 11th Plan to 57,450 MW as on FY16-end. It is expected to increase to 125GW at the end of the 13th Plan.

Power Grid Annual Capex Over The Past 7 Years



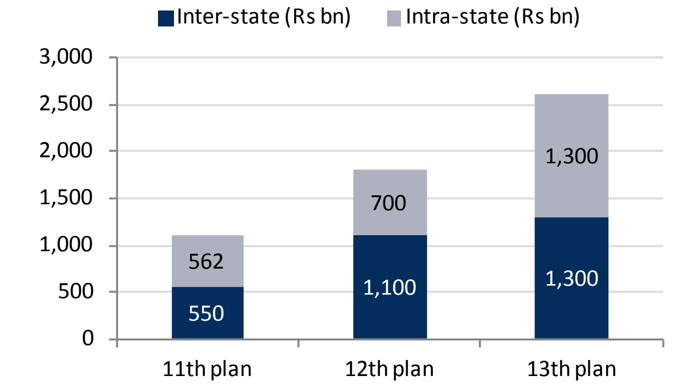
Source : PWGR, HDFC sec Inst Research

- **PWGR has spent ~Rs 1tn over the past 5-7 years and going ahead, we expect it to undergo a capex of ~Rs 1.2-1.3tn over a similar period. Its track record of timely award and execution provides substantial visibility on its future capex.**

Increased visibility on state capex

- Over the past 5-7 years, PWGR has overlaid a 765KV inter-region network. However, the associated 220KV network has not come up in several states. The 13th Plan lays great emphasis on the intra-state network. As can be seen in the chart, intra-state capex is targeted to increase from ~Rs 700bn in the 12th Plan to Rs 1.3tn in the 13th plan.

Increasing Proportion Of State Contribution



Source : CEA, HDFC sec Inst Research

- In its report, CERC has identified state-level transmission/sub-transmission systems as one of the key reasons for congestion in the transmission system. It claims that there have been cases where power could be supplied to the state through the national grid, but the state transmission/sub-transmission system was unable to absorb it.
- The demand for power is expected to grow with increasing rural electrification and easing of discom financials (with the UDAY scheme). This will push for the enhancement of state transmission systems.
- We note that most of the state transcos (unlike discoms) are profit making, and cashflow generating. They also have an advantage of access to debt funds from PFC/ REC. Additionally several states have received funds from multilateral institutes like KFW, World Bank, ADB and others.

Most Leading State: Transcos Are Profitable And Have Comfortable Financials

Company	EBITDA			Cash PAT			Equity			Debt			D/E		
	FY13	FY14	FY15	FY13	FY14	FY15	FY15	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15
Maharashtra	2,551	4,020	4,072	1,700	2,534	2,693	4,977	6,558	8,320	8,367	8,147	7,446	1.7	1.2	0.9
Andhra Pradesh	1,198	925	553	829	618	376	2,336	2,004	1,111	3,477	3,630	1,761	1.5	1.8	1.6
Karnataka	1,217	1,115	1,179	564	586	670	2,159	2,328	2,502	5,594	5,098	4,969	2.6	2.2	2.0
Tamil Nadu	1,593	2,120	1,091	536	1,620	455	-908	917	1,804	8,972	10,015	11,364	NA	10.9	6.3
Uttar Pradesh	829	1,229	856	398	725	425	4,119	5,834	7,565	6,782	7,225	7,015	1.6	1.2	0.9
Madhya Pradesh	362	365	396	224	226	261	2,232	2,226	2,317	2,893	3,292	3,779	1.3	1.5	1.6

Source: PFC report on utilities, HDFC sec Inst Research

On the back of a large contract from South America, Skipper has increased its revenue contribution from exports to 41% in FY16 (vs 4% in FY15)

Over the past year, Skipper has already met with small successes w.r.t securing orders from African / South Asian regions

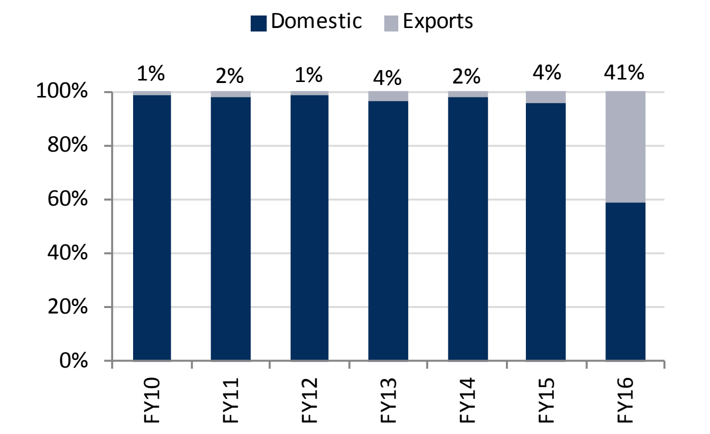
Monopoles require less than ~50% of land as compared to lattice towers. However, higher costs (~60-70%) make mass scale adoption expensive

With successful testing of its first 66 KV transmission monopole in 3QFY17, Skipper's qualification levels should rise in securing similar orders

Exports: A promising growth opportunity

- From merely 4% in FY15, exports contribution has increased to ~41% of Skippers' revenue in FY16. This was primarily on the back of a large contract from a transmission service provider in South America. While the company continues to supply towers to South American countries, it is also targeting opportunities in African and the South-Asian region.
- Geographical diversification is key for exports, as order flows from any one country are very sporadic in nature. A presence across several geographies is important to maintain a sustainable growth in exports.
- Over past year, the company has bid for several projects in African / South Asian regions, and it has already met with small successes. With efforts made in this direction in FY17E, the management expects order flows from non-Latam markets to increase in FY18/19E.

Export Contribution To Revenues



Source : Company, HDFC sec Inst Research

- Unavailability of rollers for all sections of towers, restrictions on polluting galvanising processes, cheaper domestic labour and expensive HT steel in few countries are the key reasons that allow an Indian player to be competitive in international markets. Having capacities in Howrah enables Skipper to be closer to the ports and reduce the logistics cost of exports.

Monopoles: Another long-term opportunity

- India, as of now, is largely a lattice tower market. However, increasing challenges with respect to land acquisition present a case for the adoption of monopole towers (like several developed markets like Europe).
- As per the Ministry of Power, compensation to the tune of 85% of the land's value needs to be given for the area covered under the tower structure. With issues faced in acquiring land (for timely execution), PWGR and several states have advocated for an increase in compensations given to farmers.
- Monopoles require substantially lesser ground space (less than ~50%) as compared to lattice towers. However, the cost is higher by ~60-70%, thereby making it expensive for mass-scale adoption. As per the management, with an increase in compensations, land monopole towers would find greater acceptance in the market.
- Skipper tested its first 66 KV transmission monopoles in 3QFY17. This should help it in becoming qualified for more transmission monopoles projects. Of the total capacity of 230,000 MTPA, monopole capacity stands at 15,000 MTPA, which can be further increased to 40,000 MTPA.
- As per the management, margins in monopoles are relatively higher (limited competition). Currently, monopoles are being supplied for telecom towers, street lighting and exports (poles in power distribution).

Polymer products currently account for ~11% of Skipper's top line, and have grown at a significant pace, albeit at a low base

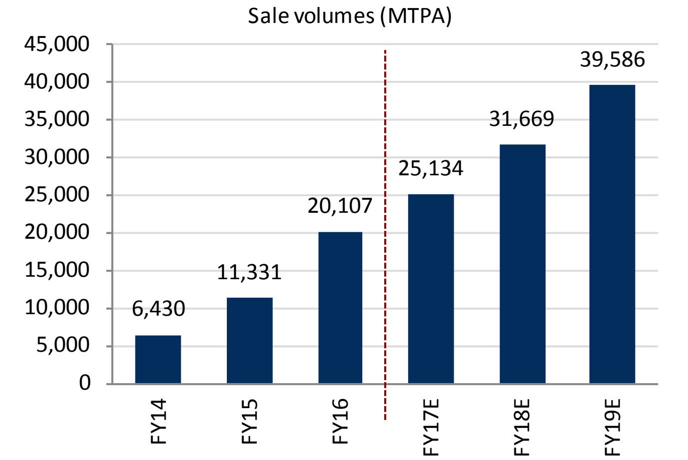
Skipper has entered into a technological tie-up with Sekisui (Japan) for the CPVC 'Durastream' compound

Over FY16-19E, we expect the revenue from polymer products to grow at ~32% CAGR, and its proportion to increase to 16% of overall revenues

Polymer products to drive next leg of growth

- Skipper's polymer products business constitutes the manufacturing, branding and supply of polymer pipes and fittings. This segment's revenues have grown at ~47% CAGR over FY13-16 to Rs 1.5bn in FY16. In 9MFY17, this segment accounts for ~11% of the company's revenue.
- **Range of products:** The range of products in this business include UPVC lead-free plumbing pipes, CPVC by Durastream hot and cold pipes and fittings, SWR Magik Flow pipes and fittings, Agricultural pipes and fittings and Borewell and Irrigation pipes and fittings. ~75% of its products cater to the agriculture/water supply segment, and the remaining 25% to the plumbing segment.
- **Technological tie-ups:** In FY16, Skipper has entered into technological tie-ups with two companies which are (1) Sekisui of Japan, for the CPVC 'Durastream' compound to produce CPVC pipes and (2) Wavin Group of the Netherlands for advanced plumbing solutions. The company envisages that these partnerships will open prospects of premium-brand positioning and product differentiation.
- **Business footprint:** The east (particularly West Bengal), is the main market for Skipper's polymer products. Geographically, the east and north-east account for 65-70% of Skipper's revenues. For its polymer products, Skipper largely focusses on the retail segment, accounting for 90% of sales. The company has ~1,500 touch points across India.
- **Capacity:** Skipper's overall piping capacity stands at ~41,000 MT, including the recently-commissioned plants at Ahmedabad (10,000 MT), Guwahati (4,000 MT), Sikandrabad (6,000 MT) and Hyderabad (6,000 MT). The company plans to increase its capacity in Guwahati for polymer fittings.

Polymer Products: Sales Volumes (MTPA)



Source : Company, HDFC sec Inst Research

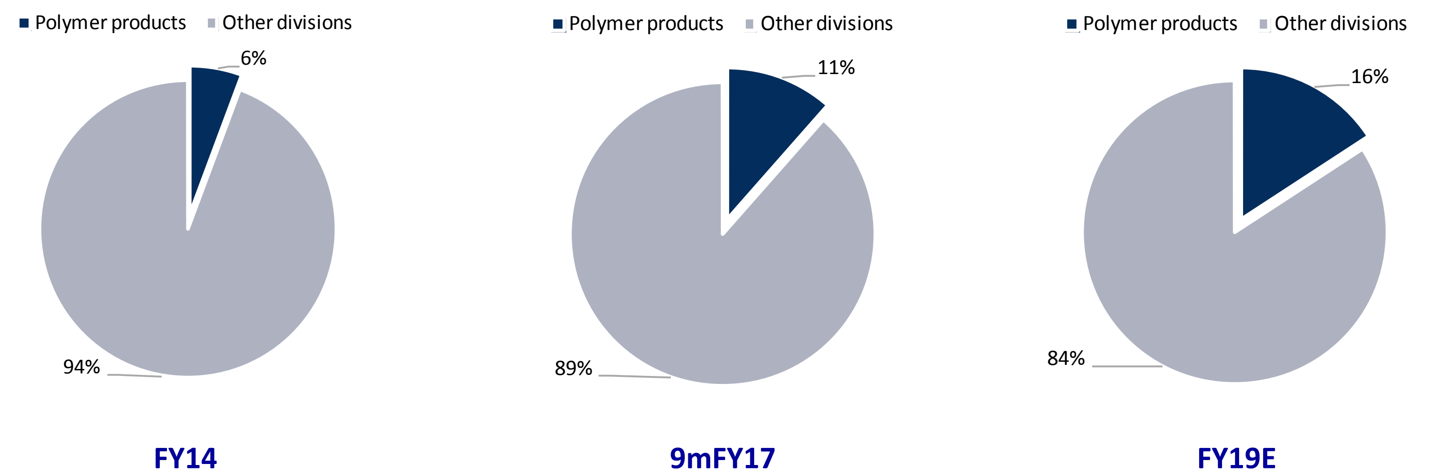
- **Asset-light model:** Skipper has adopted the asset-light approach for its polymer piping capacities. According to this approach, the company opts for leasing land and sheds, as opposed to owning them. Owing to this approach, the company expects to reduce the plant execution time from 24 months to 8-9 months. Further, as per the company, the leasing approach leads to a reduction in capex cost to Rs 10,000 per tonne vs. to Rs 20,000 per tonne in greenfield expansion. The company envisages increasing its total capacity to 100,000 MT by FY19/20E.
- **Industry opportunity:** As per industry sources, the Indian pipe industry is touted to grow at 12-15% CAGR to ~Rs 350 bn over the next 3 years. The addressable PVC pipes market stands at 1.8 MT, of which ~60% is organised. On the other hand, the CPVC market is relatively smaller, at 100,000-110,000 MT. However, CPVC pipes are largely priced at a premium over PVC pipes.

Post geographical diversification and a tie-up with Sekisui for the CPVC compound, we expect polymer products to grow at ~32% CAGR over FY16-19E

We expect proportion of the polymer products revenue to increase to ~16% of Skipper's revenue by FY19E (vs. ~11% in 9mFY17)

- Post their geographical diversification and tie-up with Sekisui for the CPVC compound, we expect a notable ramp up in the polymer products business for Skipper. Over FY16-19E, we expect revenue from polymer products to grow at ~32% CAGR, to ~Rs 3.5bn by FY19E.
- We expect the growth in the polymer business to be higher than the company's overall revenue growth (~14% CAGR over FY16-19E). Thus, we expect the proportion of revenues from polymer products to increase to ~16% of Skipper's revenue by FY19E (vs. ~11% in 9mFY17).

Increasing Contribution To Revenue From Polymer Divisions



Source: Company, HDFC sec Inst Research

PWGR constituted ~51% of the order book in FY16. Exports and SEB's share stood at 25% and 24% respectively

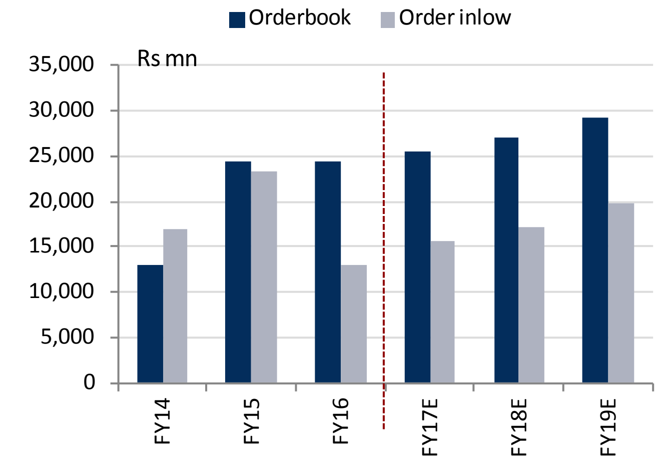
Despite the share of polymer products in total revenues increasing to 16% in FY19E, Engineering products would continue to be the mainstay for the company

We expect revenues to grow at 13.7% CAGR over FY16-19E, driven by 32% CAGR in the polymer products segment

Well-diversified order book, growth triggers in place

- Over FY11-16, Skipper has witnessed a sharp growth in its order book (~6.3x). This was primarily led by strong order flows in the export market in the FY15. Further, the company also enjoys diversification in its order book. While PWGR constituted ~51% of order book (FY16 end), exports and SEB's share stood at 25% and 24% respectively.

Order Book And Order Inflow Trend



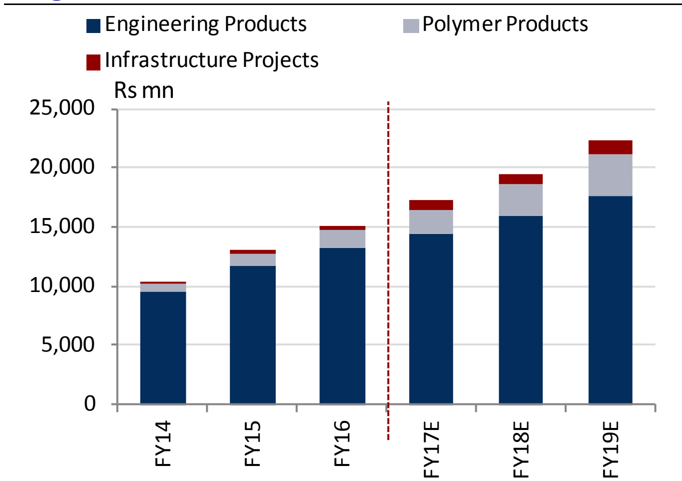
Source : Company, HDFC sec Inst Research

- Given the planned investments in the domestic T&D market (+44% increase in the 13th Plan to Rs 1.3tn) and increased order flows from the South Asian/ African region, we expect the traction in the order book to continue over the next 2-3 years.

Revenues: Polymer products to be the key driver

- During FY12-16, revenues witnessed a CAGR of 19%. While the Engineering segment (~90% of revenues) grew at a CAGR of 18.6%, the Polymer segment (~7% of revenues) grew at a CAGR of 50.4%, on a very low base.
- Benefitting from technological tie-ups and geographical diversifications, the polymer business would witness higher growth. Its share in the total revenue is likely to increase from ~11% in 9mFY17 to 16% in FY19E. However, engineering products would continue to be the mainstay of the company.
- Off late, Skipper has taken on a few EPC projects as well. Its strategy is to be extremely cautious in the EPC business, with increased focus on the manufacturing business. Thus, EPC revenue (Infrastructure segment) would be lumpy and unlikely to contribute largely to the overall revenues.

Segmental Revenues



Source : Company, HDFC sec Inst Research

Existence of the price variation clause covers the company from wild movements in steel prices, thereby protecting margins

Key risks to Skipper's margin profile pertain to movements in steel prices and forex exposures. However the company has adequate systems in place to hedge these risks.

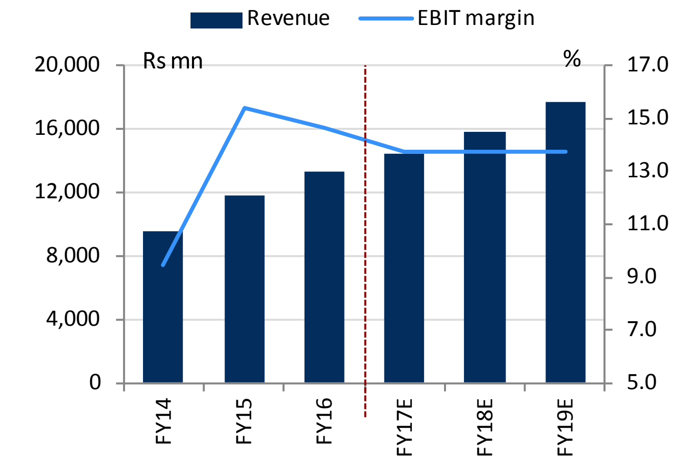
Increasing steel prices: not really a concern

- As per the management, steep hikes in steel prices have been witnessed in the flat product category. The recent imposition of MIP and safeguard duty was only on flat products. Due to the presence of secondary steel producers, prices in the long products category are not very volatile. Long product prices have increased marginally in FY17E.
- Importantly, there is also a price variation clause to cover for wild movements in steel prices. The management does not expect an increase in steel prices to hurt its margins in FY17E or FY18E.

Stable margin profile

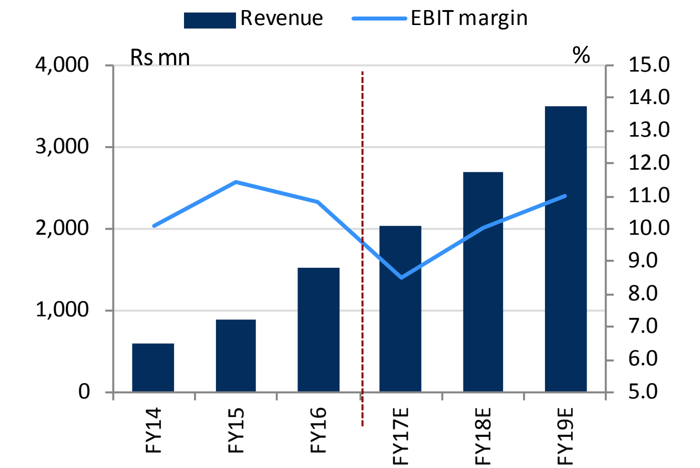
- There exist two key risks to the company's margin profile viz. steel prices and forex. While there exist measures in place to remain insulated from movements in steel prices (explained above), the company has a hedging mechanism in place for its forex exposure. Hence, the overall margin profile is expected to be very stable.
- As per the management, the company has not witnessed a variance of over 25bps in actual margins vs. the embedded margins at the time of bidding for a project.
- Prior to FY15, Skipper was also engaged in manufacture of steel pipes (including allied activities of welding and galvanisation). Being a substantially low-margin business, the overall engineering segment margins were impacted till FY14. Post the exit from that business in FY15, margins have improved.

Engineering Products: Revenue & EBIT Margin



Source: Company, HDFC sec Inst Research

Polymer Products: Revenue & EBIT Margin



Source: Company, HDFC sec Inst Research

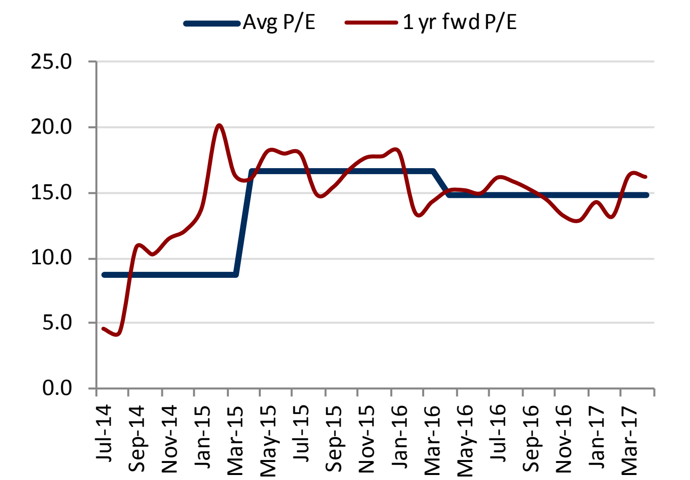
Attractive valuations: Initiate with a BUY

Gradual capacity expansion in the engineering products segment and the asset-light model in polymer products have ensured ROEs in excess of 20%

Despite better return ratios, Skipper currently trades at a discount to its T&D peers

- Skipper is well placed to benefit from opportunities in both its business engineering products (domestic plus exports) and polymers. Consequently, there exists adequate comfort on revenue growth estimates of 13.2%/14.3% for FY18/19E.
- Skipper has expanded its capacity in a gradual manner in the engineering products segment and followed an asset-light model in the polymer segment. The same ensures a comfortable leverage position, and an ROE in excess of over 20%.
- Despite better return ratios, Skipper trades at a discount to its T&D peers, providing more upsides from current levels (refer table below).
- Valuations have further scope to improve, as the contribution from the polymer business increases. Listed peers in the polymer business trade at a premium P/E multiple of ~25-30x (FY19E EPS).
- We initiate coverage on Skipper with a BUY rating and a TP of Rs 220/share (15x FY19E EPS). Our TP implies an upside of 19% from current levels.

Skipper P/E Band



Source : HDFC sec Inst Research

Peer Valuation: T&D Companies

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
KEC International	56	216	NEU	212	10.2	12.3	14.1	21.3	17.6	15.3	10.3	9.0	8.1	16.1	16.8	16.6
Kalpataru Power * ^	52	341	BUY	392	17.2	18.5	21.3	15.5	14.5	12.6	10.7	9.7	8.6	11.1	10.8	11.2
Techno Electric ^	43	380	NEU	400	18.2	21.1	23.9	25.8	20.0	16.9	13.2	12.0	10.5	19.5	19.7	19.3
Skipper Limited *	**19**	**185**	**BUY**	**220**	**9.5**	**11.8**	**14.7**	**19.5**	**15.6**	**12.6**	**10.1**	**8.6**	**7.4**	**23.1**	**23.7**	**23.9**

*Note - represent SA numbers ^ P/E adjusted for value of Subs /JV's / non-core businesses
Source: HDFC sec Inst Research

We expect EBIT margins of 13.8/12.0/11.0% in FY19E for the Engineering / Infrastructure / Polymer segments respectively

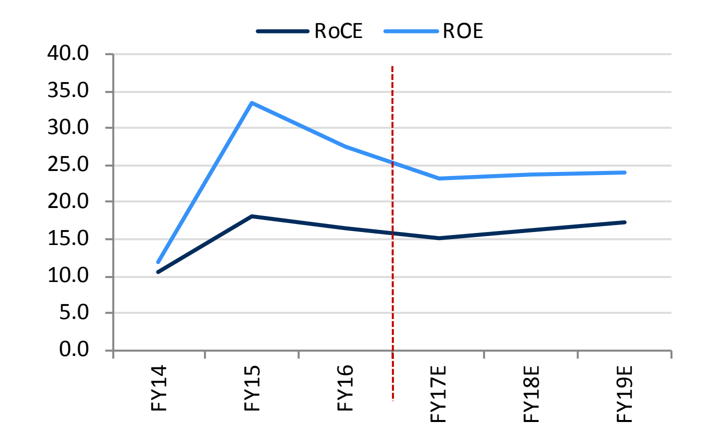
With expansion largely funded through internal accruals, we expect Net D/E to decline to ~0.6x in FY19E (vs 1.1x in FY16)

Key Assumptions And Estimates: Standalone

Rs mn	FY15	FY16	FY17E	FY18E	FY19E
Revenue					
Engineering Products	11,768	13,260	14,387	15,844	17,670
YoY growth	*23.2%*	*12.7%*	*8.5%*	*10.1%*	*11.5%*
Infrastructure Projects	462	277	761	913	1,050
YoY growth	*71.2%*	*-40.2%*	*175.0%*	*20.0%*	*15.0%*
Polymer Products	897	1,525	2,040	2,699	3,509
YoY growth	*51.8%*	*70.0%*	*33.8%*	*32.3%*	*30.0%*
Total Revenue	**13,128**	**15,062**	**17,188**	**19,456**	**22,228**
YoY growth	*26.0%*	*14.7%*	*14.1%*	*13.2%*	*14.3%*
Polymer Products- Sales quantity (MT)	11,331	20,107	25,134	31,669	39,586
Polymers Products - Realization (Rs/ MT)	79,190	75,864	81,175	85,233	88,643
EBIT Margins					
Engineering Products	15.4%	14.6%	13.8%	13.8%	13.8%
Infrastructure Projects	23.8%	15.4%	13.0%	12.5%	12.0%
Polymer Products	11.5%	10.8%	8.5%	10.0%	11.0%
Capex	313	917	500	500	500
Net Debt	3,268	4,184	4,522	4,345	3,996

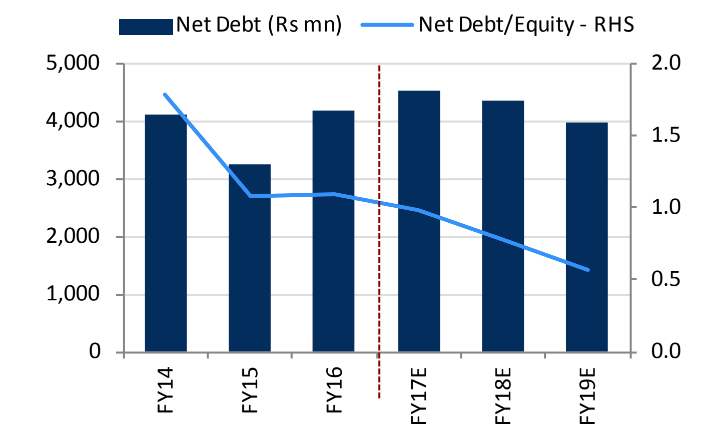
Source: Company, HDFC sec Inst Research

Return Ratios (RoCE And ROE)



Source: Company, HDFC sec Inst Research

Net Debt And Net D/E



Source: Company, HDFC sec Inst Research

Peer Valuations

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Larsen & Toubro ^	1,564	1,679	BUY	1,798	64.8	69.2	69.8	20.4	19.1	18.9	18.5	16.8	14.9	13.1	12.8	11.9
Cummins India *	271	978	NEU	1,033	27.3	30.6	34.4	35.8	32.0	28.4	32.5	28.6	25.1	22.8	23.3	23.6
Voltas	134	405	BUY	462	13.3	15.3	17.7	30.5	26.5	22.9	22.5	18.7	15.8	17.2	17.4	17.8
Thermax	120	1,005	SELL	796	26.3	27.8	31.8	38.2	36.2	31.6	27.2	23.9	20.2	12.8	12.4	13.0
Engineers India *	106	158	BUY	178	5.6	6.2	8.0	28.2	25.5	19.8	22.3	19.8	13.9	13.8	14.6	18.0
Suzlon	100	20	BUY	24	1.0	1.1	1.2	19.1	18.8	16.2	9.9	9.8	8.1	NA	NA	NA
KEC International	56	216	NEU	212	10.2	12.3	14.1	21.3	17.6	15.3	10.3	9.0	8.1	16.1	16.8	16.6
Carborundum Universal	56	295	BUY	340	8.9	11.5	13.6	33.0	25.6	21.7	15.8	13.6	11.8	13.4	15.4	15.9
Kalpataru Power * ^	52	341	BUY	392	17.2	18.5	21.3	15.5	14.5	12.6	10.7	9.7	8.6	11.1	10.8	11.2
CG Power & Industrial ^	50	80	BUY	84	-1.2	1.6	1.6	NA	43.5	42.1	14.9	13.1	12.0	-1.7	2.2	2.3
Triveni Turbine	46	139	BUY	152	4.0	4.5	5.1	35.1	31.1	27.3	24.9	21.6	18.6	39.0	34.5	31.1
Techno Electric ^	43	380	NEU	400	18.2	21.1	23.9	25.8	20.0	16.9	13.2	12.0	10.5	19.5	19.7	19.3
Skipper Limited *	**19**	**185**	**BUY**	**220**	**9.5**	**11.8**	**14.7**	**19.5**	**15.6**	**12.6**	**10.1**	**8.6**	**7.4**	**23.1**	**23.7**	**23.9**
Sanghvi Movers *	10	236	BUY	331	21.8	25.7	27.6	10.8	9.2	8.6	4.4	4.2	3.5	12.0	12.7	12.2

*Note - represent SA numbers ^ P/E adjusted for value of Subs /JV's / non-core businesses

Source: HDFC sec Inst Research

Income Statement: Standalone

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	**13,128**	**15,062**	**17,188**	**19,456**	**22,228**
Growth (%)	***26.0***	***14.7***	***14.1***	***13.2***	***14.3***
Material Expenses	8,797	9,485	11,086	12,559	14,382
Employee Expenses	341	500	774	867	997
SG&A Expenses	1,840	2,873	3,002	3,333	3,749
Total Expenses	**10,978**	**12,858**	**14,863**	**16,759**	**19,128**
EBIDTA	**2,149**	**2,204**	**2,325**	**2,697**	**3,100**
EBIDTA %	***16.4***	***14.6***	***13.5***	***13.9***	***13.9***
EBIDTA Growth %	***93.1***	***2.6***	***5.5***	***16.0***	***14.9***
Depreciation	220	241	279	304	331
EBIT	**1,929**	**1,963**	**2,046**	**2,393**	**2,768**
Other Income (Including EO Items)	19	40	75	83	91
Interest	583	570	669	669	620
PBT	**1,365**	**1,433**	**1,452**	**1,806**	**2,239**
Tax (Incl Deferred)	474	482	479	596	739
RPAT	**891**	**951**	**973**	**1,210**	**1,500**
EO (Loss) / Profit (Net Of Tax)	(1)	8	-	-	-
APAT	**893**	**943**	**973**	**1,210**	**1,500**
APAT Growth (%)	***240.4***	***5.7***	***3.1***	***24.4***	***24.0***
Adjusted EPS (Rs)	**8.7**	**9.2**	**9.5**	**11.8**	**14.7**
EPS Growth (%)	***240.4***	***5.6***	***3.1***	***24.4***	***24.0***

Source: Company, HDFC sec Inst Research

Balance Sheet: Standalone

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	102	102	102	102	102
Reserves	2,936	3,713	4,501	5,526	6,841
Total Shareholders Funds	**3,039**	**3,815**	**4,603**	**5,628**	**6,944**
Long Term Debt	1,707	1,983	1,983	1,983	1,983
Short Term Debt	2,122	2,699	2,899	2,699	2,199
Total Debt	**3,829**	**4,682**	**4,882**	**4,682**	**4,182**
Net Deferred Taxes	265	315	315	315	315
Long Term Provisions & Others	2	13	12	13	15
TOTAL SOURCES OF FUNDS	**7,134**	**8,825**	**9,812**	**10,638**	**11,455**
APPLICATION OF FUNDS					
Net Block	3,513	3,852	3,995	4,191	4,360
CWIP	65	421	500	500	500
Investments	-	-	-	-	-
LT Loans & Advances	-	-	-	-	-
Total Non-current Assets	**3,578**	**4,274**	**4,495**	**4,691**	**4,860**
Inventories	2,282	2,500	3,061	3,465	3,958
Debtors	3,758	3,724	4,474	5,064	5,785
Other Current Assets	458	907	942	1,066	1,218
Cash & equivalents	561	498	360	337	186
Total Current Assets	**7,059**	**7,629**	**8,837**	**9,932**	**11,148**
Creditors	3,295	2,884	3,296	3,731	4,263
Other Current Liabilities & Provns	208	193	224	253	289
Total Current Liabilities	**3,503**	**3,077**	**3,520**	**3,984**	**4,552**
Net Current Assets	**3,556**	**4,552**	**5,317**	**5,947**	**6,596**
TOTAL APPLICATION OF FUNDS	**7,134**	**8,825**	**9,812**	**10,638**	**11,455**

Source: Company, HDFC Sec Inst Research

Cash Flow Statement: Standalone

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	1,365	1,433	1,452	1,806	2,239
Non-operating & EO items	(19)	(40)	(75)	(83)	(91)
Interest Expenses	583	570	669	669	620
Depreciation	220	241	279	304	331
Working capital change	179	(1,047)	(904)	(652)	(798)
Tax Paid	(474)	(482)	(479)	(596)	(739)
Other operating items	47	28	-	-	-
OPERATING CASH FLOW (a)	**1,901**	**704**	**942**	**1,449**	**1,563**
Capex	(313)	(917)	(500)	(500)	(500)
Free Cash Flow	1,588	(213)	442	949	1,063
Investments	-	-	-	-	-
Non-operating Income	19	40	75	83	91
INVESTING CASH FLOW (b)	**(295)**	**(877)**	**(425)**	**(418)**	**(409)**
Debt Issuance/(Repaid)	(566)	853	200	(200)	(500)
Interest	(583)	(570)	(669)	(669)	(620)
FCFE	439	70	(28)	79	(57)
Share Capital Issuance	-	-	-	-	-
Dividend	(160)	(172)	(185)	(185)	(185)
FINANCING CASH FLOW (c)	**(1,309)**	**111**	**(654)**	**(1,054)**	**(1,305)**
NET CASH FLOW (a+b+c)	**298**	**(63)**	**(138)**	**(23)**	**(151)**
Closing Cash & Equivalents	**561**	**498**	**360**	**337**	**186**

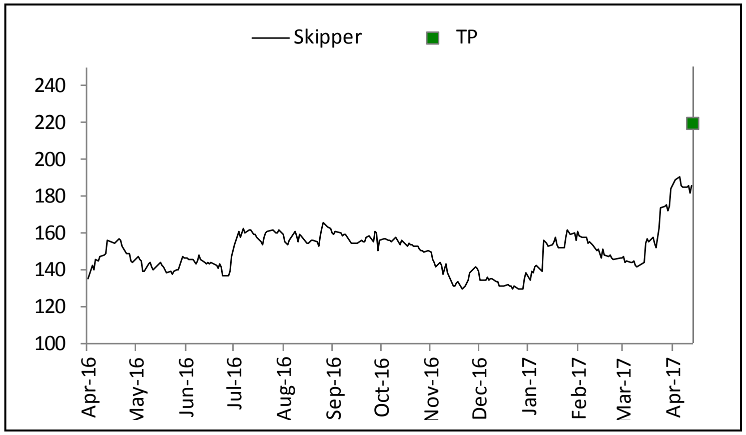
Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY %					
GPM	33.0	37.0	35.5	35.5	35.3
EBITDA margin	16.4	14.6	13.5	13.9	13.9
APAT margin	6.8	6.3	5.7	6.2	6.7
RoE	33.4	27.5	23.1	23.7	23.9
Core RoCE (RoIC)	19.0	17.5	15.4	16.2	17.2
RoCE	18.1	16.6	15.3	16.2	17.3
EFFICIENCY					
Tax Rate (%)	34.7	33.6	33.0	33.0	33.0
Fixed Asset Turnover (x)	3.7	3.5	3.8	4.1	4.6
Inventory (days)	*63.5*	*60.6*	*65.0*	*65.0*	*65.0*
Debtors (days)	*104.5*	*90.2*	*95.0*	*95.0*	*95.0*
Other Current Assets (days)	*12.7*	*22.0*	*20.0*	*20.0*	*20.0*
Payables (days)	*91.6*	*69.9*	*70.0*	*70.0*	*70.0*
Other Current Liab & Provns (days)	*5.8*	*4.7*	*4.8*	*4.8*	*4.8*
Cash Conversion Cycle (days)	*83.3*	*98.2*	*105.3*	*105.3*	*105.3*
Debt/EBITDA (x)	1.8	2.1	2.1	1.7	1.3
Net D/E (x)	1.1	1.1	1.0	0.8	0.6
Interest Coverage (x)	3.3	3.4	3.1	3.6	4.5
PER SHARE DATA (Rs)					
EPS	8.7	9.2	9.5	11.8	14.7
CEPS	10.9	11.6	12.2	14.8	17.9
Dividend	1.3	1.4	1.5	1.5	1.5
Book Value	29.7	37.3	45.0	55.0	67.9
VALUATION					
P/E (x)	21.2	20.1	19.5	15.6	12.6
P/BV (x)	6.2	5.0	4.1	3.4	2.7
EV/EBITDA (x)	10.3	10.5	10.1	8.6	7.4
EV/Revenues (x)	1.7	1.5	1.4	1.2	1.0
OCF/EV (%)	8.6	3.0	4.0	6.2	6.8
FCF/EV (%)	7.2	(0.9)	1.9	4.1	4.6
FCFE/Mkt Cap (%)	2.3	0.4	(0.1)	0.4	(0.3)
Dividend Yield (%)	0.7	0.8	0.8	0.8	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-Apr-17	185	BUY	220

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, Pawan Parakh, CFA, Ashutosh Mehta, ACA & Sonali Salgaonkar, MBA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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