Skipper - BUY

Result Update Q1 FY17

August 10, 2016

IIFL PRIVATE WEALTH MANAGEMENT

On right track

Skipper's quarterly numbers were inline with our estimate as the impact of lower polymer business growth was offset by strong engineering business contribution. The company reported a revenue growth of 20.8% yoy led by strong execution in engineering division. PVC business saw muted growth on account of lower offtake from trade channels and also due to lower offtake from 2 project customers. The management expects this to be executed in Q2. Order book for engineering project segment stood at Rs.24.3bn, which is 1.7x of FY16 sales. Increased opportunities from PGCIL, SEB, TBCB and renewable projects to support future growth in engineering segment. In order to tap the increasing demand from North-East India, Skipper is setting up a manufacturing facility in Guhawati with a capex of Rs.700mn. Valuations at 10.8x FY18E P/E are attractive considering the strong earnings growth expected from the company. We maintain our Buy with a target price of Rs.200.

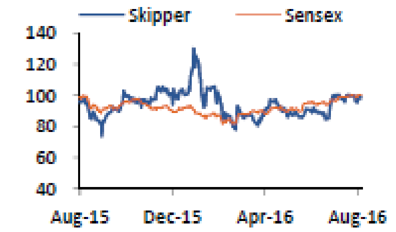
CMP (Rs) 158	12-mts Target (Rs) 200	Upside 26.7

Stock data — Sector: Industrials

Sensex:	28,085
52 Week h/l (Rs):	220 / 116
Market cap (Rs mn) :	16,176
Enterprise value (Rs mn):	278,303
6m Avg t/o (Rs mn):	4.4
Bloomberg code:	SKIPPER IB
BSE code:	538562
NSE code:	SKIPPER
FV (Rs):	1
Div yield (%):	1.0

Prices as on August 9, 2016

Stock performance



Shareholding pattern (%)

Promoter	72.4
FII+DII	3.4
Others	24.2

Revenues impacted by lower contribution from polymer business

In Q1 FY17, Skipper reported a revenue growth of 20.8% yoy to Rs.2.9bn, marginally lower than our estimate due to lower polymer business contribution. Engineering project business showcased a healthy performance with a growth of 21.6% yoy on account of strong execution and strong carry forward order book. PVC business grew 13.7% yoy much lower than our expectation. This was on account of delay in execution of some projects and also lower offtake from trade channel side. Management expects these orders to be executed in Q2 FY17. Infrastructure project segment had a robust 30.7% yoy growth to Rs.108mn. Management commented that this segment will perform much better owing to execution of orders which were received in FY16. It also expects engineering business to grow at 20% pa over the next two years, on the back of higher capacity and strong capex in the power T&D space. Management targets to achieve ~30,000 tons of volume in the PVC business in FY17, on the back of higher execution and increase in utilization levels of the new plants coupled with introduction of new products.

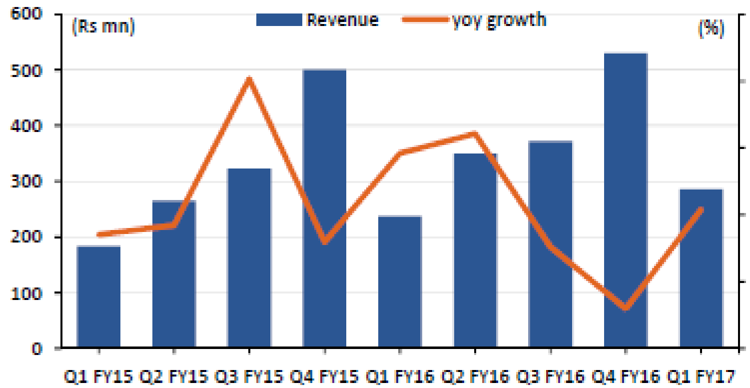
Result table

(Rs mn)	Q1 FY17	Q1 FY16	% yoy	Q4 FY16	% qoq
Net sales	2,859	2,367	20.8	5,297	(46.0)
Operating profit	422	353	19.5	734	(42.5)
OPM (%)	*14.8*	*14.9*	*-16 bps*	*13.9*	*92 bps*
Other income	8	6	26.7	11	(29.3)
Depreciation	(67)	(59)	14.7	(63)	6.7
Interest	(160)	(147)	8.8	(155)	3.0
PBT	203	153	31.9	526	(61.5)
Tax	(65)	(53)	22.6	(165)	(60.5)
Adjusted PAT	137	100	36.9	361	(62.0)
Reported PAT	137	100	36.9	361	(62.0)

Source: Company, IIFL Research

Analyst: Tarang Bhanushali, Rahul Jain

Chart 1. Revenue growth of 20.8% yoy



Source: Company, IIFL Research

Robust order book will lead to strong growth in future

Skipper's order book for engineering project segment as of June' 2016 stood at Rs.24.4bn, which gives good revenue visibility for the future. Order book is currently at ~1.7x of FY16 sales. The management targets to have its order book maintained at ~2x of sales. The company's order book is well diversified between domestic and export where the contribution stands at ~75% and ~25%, respectively. Of the total domestic order book, 50% of the orders are from PGCIL and exports account for 25%. Management expects an uptick in ordering activity in the sector on the back of increased opportunities from PGCIL, SEB, TBCB and renewable projects. Skipper has a strong presence in overseas market with its T&D business and has increased its focus on developing economies. Recently, company has entered into new geographies of Asia and Africa. It sees ample of opportunities from Kenya for 500kv projects. Also, Egypt has been a large market for the company this quarter. Significant amount of contracts have been bided by the company in Philippines, Vietnam and Malaysia and management sounded confident to bag these contacts. The order book of infrastructure business stood strong at Rs.2bn. The company has bid for projects worth Rs.1.2bn and expects the bids to be opened in Q2 FY17.

Margins remains intact

In Q1 FY17, EBITDA margin contracted by 10bps yoy to 14.8% lower than our expectation. This was on account of lower execution in polymer business and also new PVC plants had lower utilization levels. This has led to 245bps yoy contraction in EBIT margin of PVC project segment which stood at 9.6% v/s 12.1% in Q1 FY16. Management envisages to maintain its PVC project segment margin at around 11%. This would be achieved by volume growth and superior product mix. Adjusted EBIT margin in the engineering segment was flat at 15.2%. Infrastructure segment EBIT margin had a hit of 1000bps yoy to 13.4%, owing to slower execution. Management targets margin of 15-16% for this business.

Table 1: Cost Analysis

As a % of net sales	Q1 FY17	Q1 FY16	bps yoy	Q4 FY16	bps qoq
Material costs	61.9	61.7	24	64.4	(250)
Personnel Costs	5.4	4.3	111	2.9	255
Other overheads	17.9	19.1	(120)	18.8	(96)
Total costs	**85.2**	**85.1**	**16**	**86.1**	**(92)**

Source: Company, IIFL Research

Table 2: Segmental results

Y/e 31 Mar (Rs mn)	Q1 FY17	Q1 FY16	%yoy	Q4 FY16	%qoq
Sales					
Infrastructure Projects	108	83	30.7	81	34.4
Engineering Projects	2,373	1,951	21.6	4,659	(49.1)
PVC Projects	378	333	13.7	558	(32.1)
Total	**2,859**	**2,367**	**20.8**	**5,297**	**(46.0)**
EBIT					
Infrastructure Projects	14	19	(25.2)	4	225.5
Engineering Projects	360	295	21.9	675	(46.7)
PVC Projects	36	40	(9.4)	55	(33.7)
Total	**410**	**355**	**15.8**	**734**	**(44.1)**
EBIT Margins (%)			**in bps**		**in bps**
Infrastructure Projects	13.4	23.3	(1,000)	5.5	784
Engineering Projects	15.2	15.1	3	14.5	68
PVC Projects	9.6	12.1	(245)	9.9	(22)
Blended EBIT	**14.4**	**15.0**	**(63)**	**13.9**	**50**

Source: Company, IIFL Research

Concall highlights:

- Skipper has received an approval of setting up a new manufacturing plant in Guwahati, Assam with a total capex of Rs.700mn. This unit will have a capacity of 30,000 MT of engineering products producing distribution poles and transmission towers for which the estimated investment would be ~Rs.400mn and 7,000 MT of CPVC and UPVC fittings with a capex of Rs.300mn. The unit is expected to be commissioned by March 2017.
  - This unit is setup to cater to the increasing demand from PGCIL & BOOT Projects in the North-East India.
  - It will also help to take the advantage of various tax benefits and incentives given by centre and state government for setting up manufacturing units in this region. Also would help in expansion of margin arising on account of lower freight cost.
  - The plant will be a centralized hub for CPVC and UPVC fittings.
- Order book remains at similar level of March 2016. The management targets to have its order book maintained at 2x of sales. Company has bid for orders worth Rs.10bmn. Bids include 800kv HVDC bids from PGCIL worth Rs.5-6bn, Myanmar and South East Asian project bids worth Rs.2.5bn. Post approval from PGCIL for its distribution pole, company is well placed to tap these opportunities in North-east region worth Rs.10bn.
- Two TBCB projects worth Rs.12-15bn are expected to be awarded in North-east India during the year and the company plans to bid for these projects.
- Currently Skipper have five PVC units across India. With strong hold on eastern market the unit in east India is running at a utilization levels of ~90%. While, western unit is running at ~55-60% of its capacity. North, south and north-eastern units are new and running at lower utilization levels which have affected the margin during the quarter. Increase in demand will lead to increase in the levels of its new plants.
- In FY17, management has a target to achieve a volume of 30,000 tons in the polymer segment from 20,100 tons in FY16.
- During the quarter, employee cost increased by 52% yoy on account of employees hired at new plants.

Financial Summary

Y/e 31 Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Revenues	10,415	12,702	15,062	18,576	22,289
yoy growth (%)	15.7	22.0	18.6	23.3	20.0
OPM (%)	10.6	13.6	14.6	14.6	14.2
Reported PAT	269	466	951	1,287	1,575
yoy growth (%)	51.2	231.0	27.0	13.6	22.4
EPS (Rs)	2.6	4.6	9.3	12.6	15.4
P/E (x)	60.0	34.7	17.0	12.6	10.3
Price/Book (x)	7.0	5.3	4.2	3.3	2.6
EV/EBITDA (x)	18.4	11.2	9.2	7.2	6.1
Debt/Equity (x)	1.9	1.3	1.2	0.9	0.7
RoE (%)	12.3	17.4	27.8	29.7	28.7

Source: Company, IIFL Research