



CMP	185	Rating	BUY
Target	282	UPSIDE	52%

STOCK DETAILS

BSE Code	538562
NSE Code	SKIPPER
Market Cap (Rs bn)	18.9
Sector/Index	Construction & Engineering/ S&P BSE Small Cap
Year End	March
52 w.High/Low	293/159
Avg. Monthly Turnover (Rs mn)	187.3
Listed on	BSE/NSE
Shares in Issue (mn)	102.6
BSE Sensex	35,693
NSE Nifty	10,843



SHAREHOLDING PATTERN		
%	Mar-18	Dec-17
Promoter	70.2%	70.4%
FII/DII	17.1%	16.1%
Others	12.7%	13.5%

CONSOLIDATED FINANCIALS				
Rs in bn	FY17	FY18	FY19E	FY20E
Total Revenue	16.6	20.7	24.1	27.7
EBIDTA	2.7	3.0	3.4	3.9
EBIDTA(%)	16.4%	14.6%	14.0%	14.2%
PAT	0.3	1.2	1.4	1.8
EPS (Rs.)	12.14	11.43	13.81	17.61
P/E (x)	15.2	16.2	13.4	10.5

Source: Company, Indsec Research

Skipper Ltd is one of the world's leading manufacturers for Transmission & Distribution Structures (Towers & Poles) in its Engineering Products segment and is also a leading and respected brand in the Plastic Water Pipes sector as well as a trusted partner for executing critical Infrastructure EPC projects. Skipper's market reach spans across 20 countries around the globe from South America, Europe, Africa, the Middle East, South and Southeast Asia and Australia. Within India, we are a preferred manufacturer of choice for our customers pan India, from J&K to Tamil Nadu and from North East India to Gujarat.

Investment Rationale

Engineering Products (T&D) Segment – to continue to be the skipper of the pack: Over the years, Skipper has evolved to be a manufacturing centric company primarily focused on transmission tower manufacturing rather than EPC. In terms of operations, the company is seeing a comparatively robust performance given the challenging scenario in the market primarily on account of macro policy changes like GST. PGCIL has always been a major contributor to the orders in this segment and contributes ~44% to the total order book of Rs. 26.3bn. **Given the macro environment and the internal capabilities of the company, we expect this segment to post a CAGR of 13.2% over the period of FY18-20E, while the order book is expected to post a CAGR of 11.0% over the same period.**

Polymer Products – aim to build capabilities and garner market share:

Skipper is the largest PVC pipes manufacturer in West Bengal with one of the largest capacities in Eastern India. The company has a cumulative production capacity of 51,000 TPA, with the utilization rate of 50%, which was lower on account of uncontrollable macro changes such as the GST. In terms of numbers, the revenue from this segment has grown at a robust CAGR of 37.3% over FY14-18 to Rs. 2.1bn. This segment contributes 10% to the total topline, and considering the improving macro scenarios it is expected to clock a growth rate in line with its historical CAGR going ahead. **Given the initiatives the company is taking to build capabilities, we expect this segment to post a CAGR of 35.0% over the period of FY18-20E, with the share of the total pie expected to be in the range of 10-12%.**

Forward Integration – through Infrastructure Projects: Skipper is a fully integrated global infrastructure Engineering, Procurement and Construction (EPC) major. It offers integrated solutions across tower design, tower testing, manufacturing, and onsite construction. In terms of numbers, this segment has grown at a robust CAGR of 33.4% to Rs. 0.9bn, backed by swift execution of projects which again exhibits the benefits of forward integration which the company enjoys. Although, this segment is still considered to be a non-core segment, as there are no aggressive measures in place to scale up business. However, this segment plays a significant role in giving Skipper an all-round edge. The company has orders worth ~Rs. 2bn, which are to be executed over a period of 18-24 months, thus indicating strong revenue visibility as well. **In light of this, we expect the revenue to clock a CAGR of 10.0% over FY18-20E, with the order book continuing to showcase revenue visibility in the range of 18-24 months.**

Growing Exports – to help deleverage the domestic business: Exports currently form 16% of the total order book as on FY18. Considering the recent devaluation of the rupee, one could expect a better inflow of orders from international waters, and the share of the pie of export will also go up in the region of 25%. The domestic demand looks promising, but the demand for electricity and power arising from countries like Botswana, Kenya, LATAM region, etc., is also expected to propel the exports towards new highs, which will in turn reduce the dependence on domestic orders. We expect Export orders to grow at a CAGR of 38.7% over FY18-20E, and expect their share to be in the region of 25%.

Valuation: Skipper Limited is one of the world's largest Integrated Transmission Tower manufacturing companies with Angle Rolling, Tower, Accessories & Fastener manufacturing and EPC line construction. It is the Largest manufacturer of T&D structures in India and among top 10 globally, and is also one of the largest & the fastest growing Polymer Pipes & Fittings in India. The company has 4 power grid approved Transmission tower & poles manufacturing plants with a combined engineering capacity of 2,65,000 MTPA, and has also been awarded as "Largest Tower Supplier" by PGCIL & "Best Industry in Water Resources sector" by Central Board of Irrigation And Power. **We expect the Topline to grow at CAGR of 15.5% over FY18-FY20E to Rs. 27.7bn, while EBITDA is expected to grow at CAGR of 13.9% with margins expected to be at 14.2%. At CMP of Rs 185 the stock is trading at 13.4x and 10.5x on our earnings of Rs. 13.81 and Rs. 17.61 for FY19E and FY20E respectively. With the likely growth in the Power T&D and Polymer segments, we expect Skipper to capitalize on the opportunities present in both the International and domestic markets. The company has capex in line for capacity expansion in certain product ranges like the fittings, CPVC business & HDPE business along with regularly scheduled maintenance capex. In terms of relative valuation, the company does not have any exact peer when taking the business model into consideration, but we've taken EPC players in the T&D business like Kalpataru Power Transmission (KPTL) & KEC International which on an average trade at 16x FY20E P/E multiple. We believe that given the likely tailwinds in the international markets on account of rupee devaluation and the ramp up in orders from the domestic segment, Skipper could trade at similar valuations going ahead. Further, Skipper has historically traded at a one year forward range of 16-18x. Hence, we assign a target PE multiple of 16x for the stock on our FY20E earnings of Rs. 17.61, post which we arrive at a target of Rs. 282; which implies an upside of 52% from the current levels. We assign a BUY call on the stock.**

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About the Company:

- ⇒ Established in 1981, Skipper Ltd has evolved into a pioneer in the manufacturing of T&D structures (towers & poles) through its “Engineering Products” segment. The company also caters to plastic water pipes sector through its “Polymer Products” segment and is a respected player in the space. Leveraging their manufacturing prowess, the company has also entered the EPC Infra space along with the help of partners, thus making them a completely integrated player.
- ⇒ Skipper has over 35 years of domain knowledge and are the largest manufacturers of T&D structures in India and among the top 10 globally. The company is also one of the fastest growing Polymer pipe manufacturing companies in India, with a distribution network spanning across the country with 3500+ channel partners.
- ⇒ The company has 3 state-of-the-art manufacturing plants in the eastern part of India, one in Jangalpur & one in Uluberia (near Kolkata) which have an installed capacity of **200,000 MTPA**. The company also has a manufacturing plant in Palasbari (near Guwahati) which was commissioned in March 2017 having a capacity of **30,000 MTPA**. Further, another **35,000 MTPA** was added to the Engineering products capacity to take the total installed capacity to **265,000 MTPA**.
- ⇒ Skipper’s polymer products segment has a state-of-the-art technological manufacturing capacity of **51,000 MTPA**, and this coupled with their customized workshop layout enables them efficiently utilize the resources for production.

Global Footprint


Source: Company, Industry & Indsec Research

Engineering Products Segment

- Over the years, Skipper has evolved into being one of the largest players in the Power T&D manufacturing space in India, and amongst the top 10 globally with presence in business segments like Towers, Tubular Poles, Monopoles and integrated services (EPC). This well rounded presence gives them control over the value chain- i.e. from manufacturing to EPC. Apart from a strong domestic presence the company has also established a significant global footprint in over 30 countries across South America, Europe, Africa, the Middle East, S.E. Asia and Australia.
- Skipper currently has 4 Power Grid approved Transmission tower & poles manufacturing plants with a combined engineering capacity of **265,000 MTPA**. The company has gradually built this up capacity from **175,000 MTPA in FY15** to the current capacity of 2.65 lac MTPA. The current utilization rate of these facilities is **~90%**, and the company will incur further capex in lieu of steady expansions going ahead.
- Product Offerings include: The current product offerings include Power Transmission towers, power distribution poles (swaged, high mast & octagonal), transmission line monopoles, telecom towers, mild steel & high tensile angels, fasteners, tower accessories, etc. This division currently contributes **~86%** to the total revenue (as on FY18).

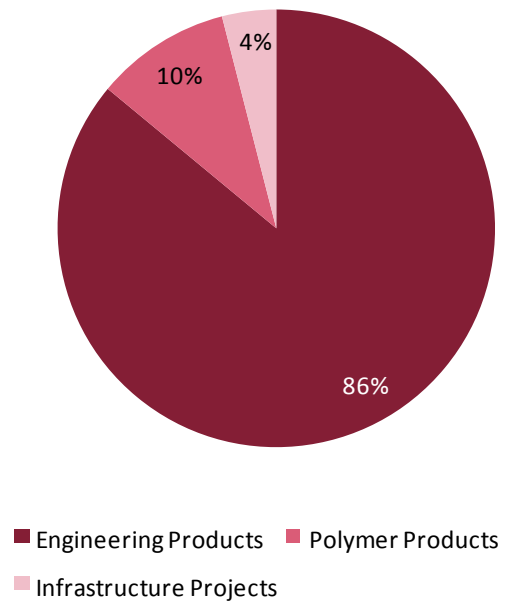
Polymer Products Segment

- Under the polymer business umbrella the company manufactures, brands and supplies polymer pipes & fittings. Although the company is still a relatively smaller player in this segment they are already the largest the PVC pipes manufacturer in West Bengal with one of the largest capacities in Eastern India. The output under this segment caters to the agricultural as well the plumbing industry with the **current mix standing at 65:35 (Agri: Plumbing)**.
- Just like in the case of Engineering Products, the company has gradually built up its capacities in this division from **12,500 MTPA in FY15** to **51,000 MTPA in FY18**, with a utilization rate of **~50%**. FY18 was a muted year for the company in this segment with GST and RERA proving to be hurdles which in turn led to lower utilization of capacities.
- Product Offerings include: The current product offerings include CPVC Pipes & Fittings (DURASTREAM), UPVC pipes, SWR Pipes & Fittings, Column Pipes, Casing Pipes, Ribbed Strainer Pipes, Agriculture pipes, etc. This division contributes **~10%** to the total revenue (as on FY18).

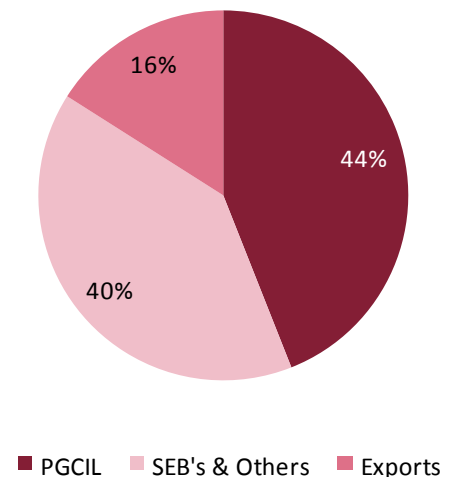
Infrastructure Projects Segment

- To take their manufacturing presence a step further the company forayed into the EPC space, thus becoming a fully integrated global infra EPC major. Their integrated solutions include tower design, tower testing, manufacturing and onsite construction. Skipper has a dedicated vertical line for EPC construction with a specialized skill set to execute turnkey transmission projects up to 800 kV HVDC for various utilities.
- The ongoing projects include: 400 kV D/C Rapp at Kota for PGCL, 400 kV D/C in Kanpur for PGCIL, 400 kV D/C at Alipurduar for PGCIL, 220/132 kV Dc/Sc lines for UP Power transmission, 800 kV HVDC at Pugalur for PGCIL. This division currently contributes **~4%** to the total revenue (FY18).

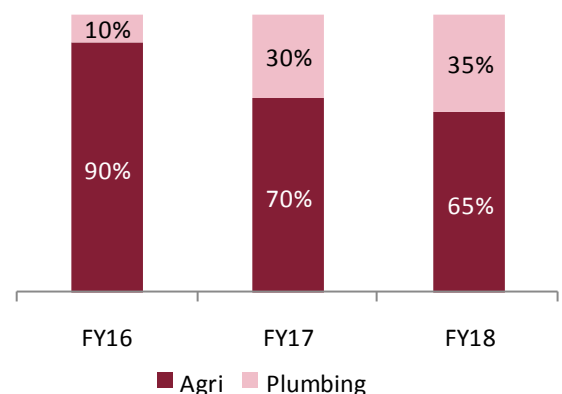
Segmental Revenue Share*



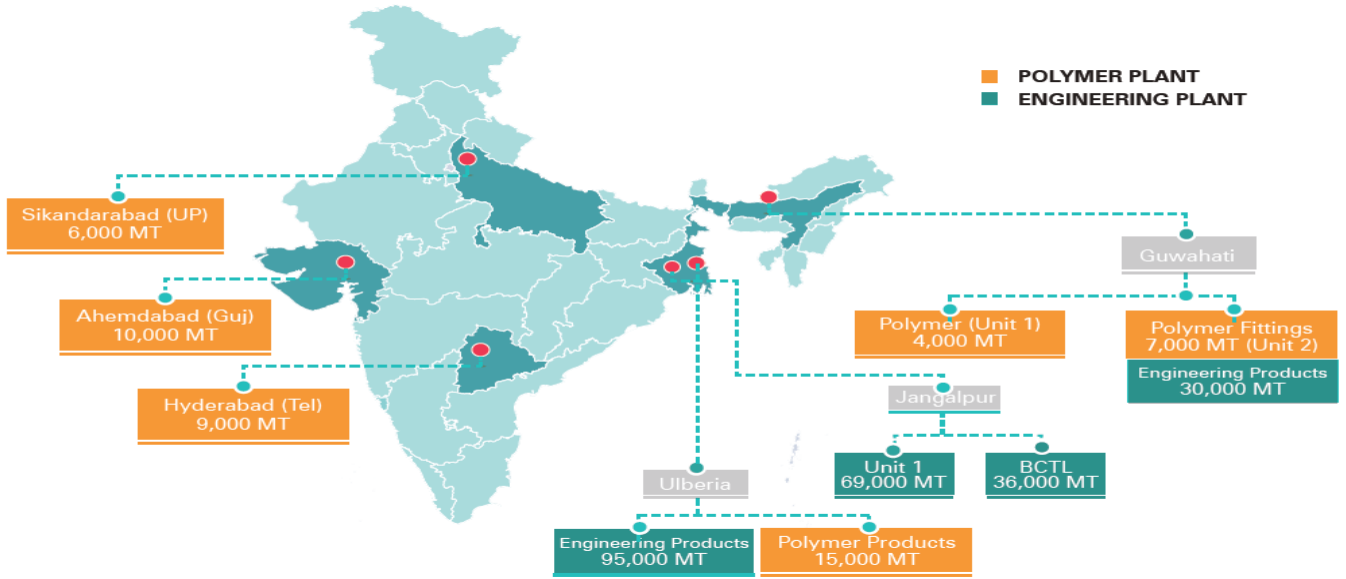
Engineering Products Order Book Pie*



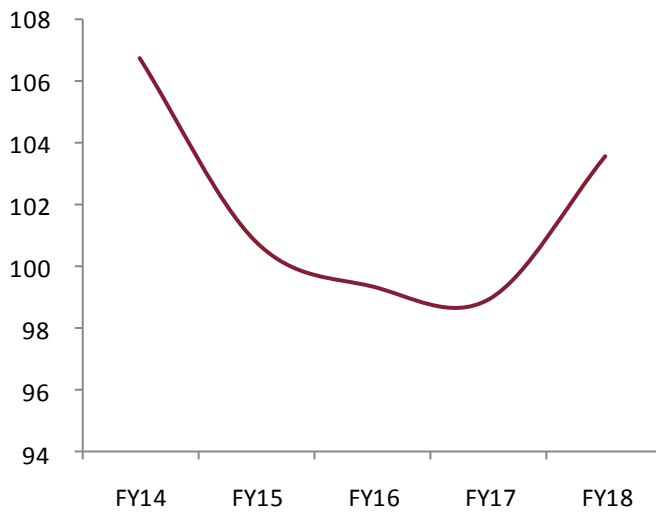
PVC Pipes addressable market Break-up



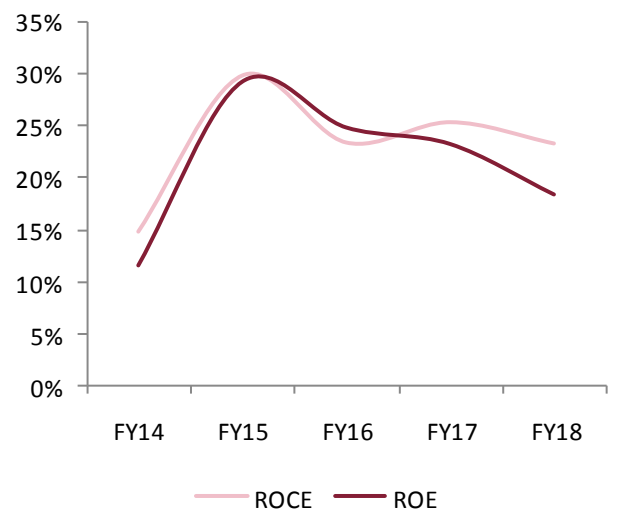
Skipper in Charts



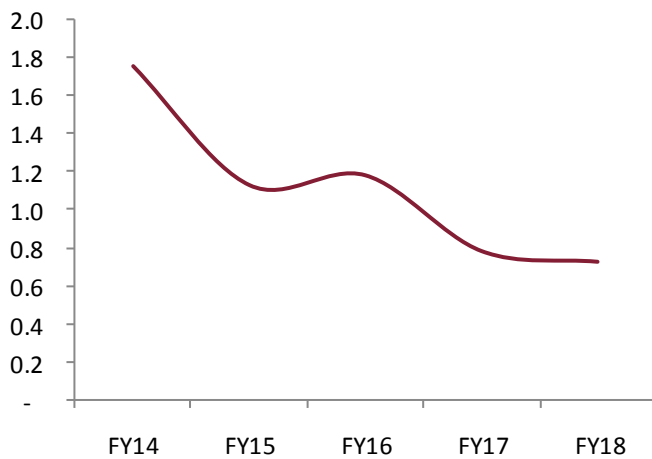
Working Capital Days



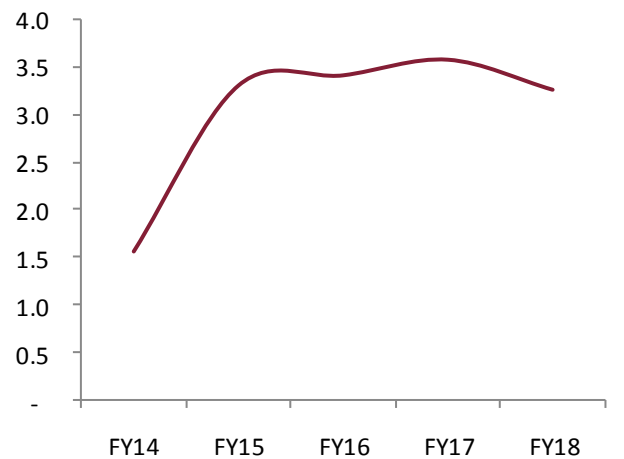
Return Ratios (in %)



Debt Equity Ratio



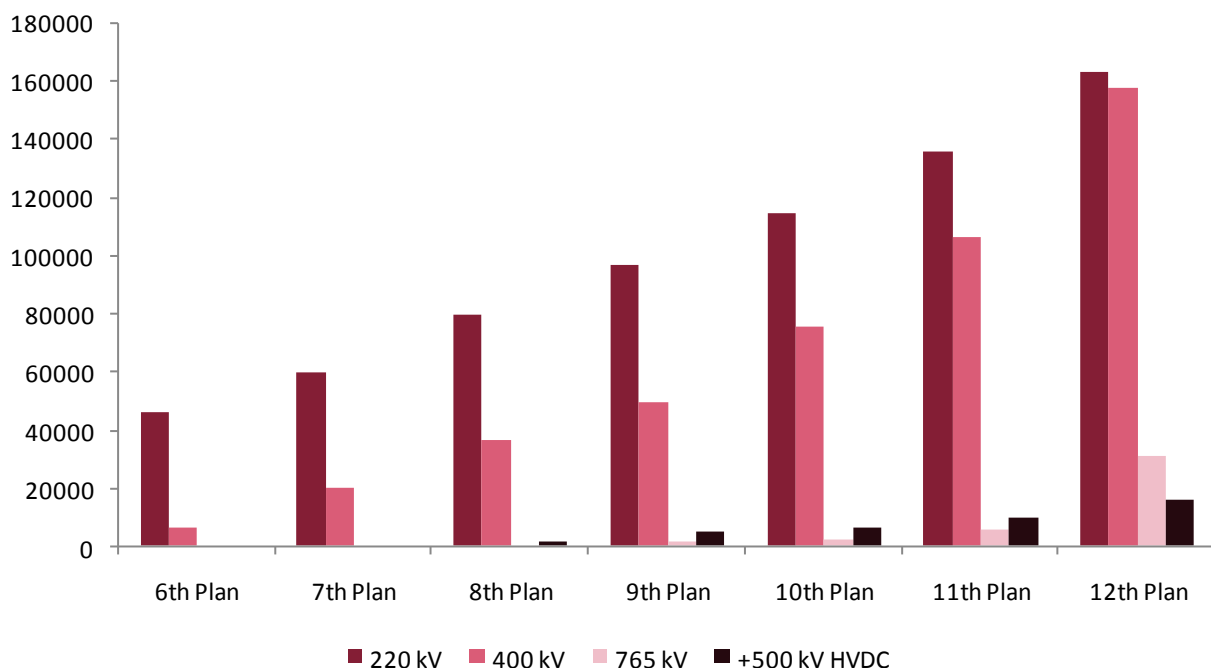
Interest Coverage Ratio



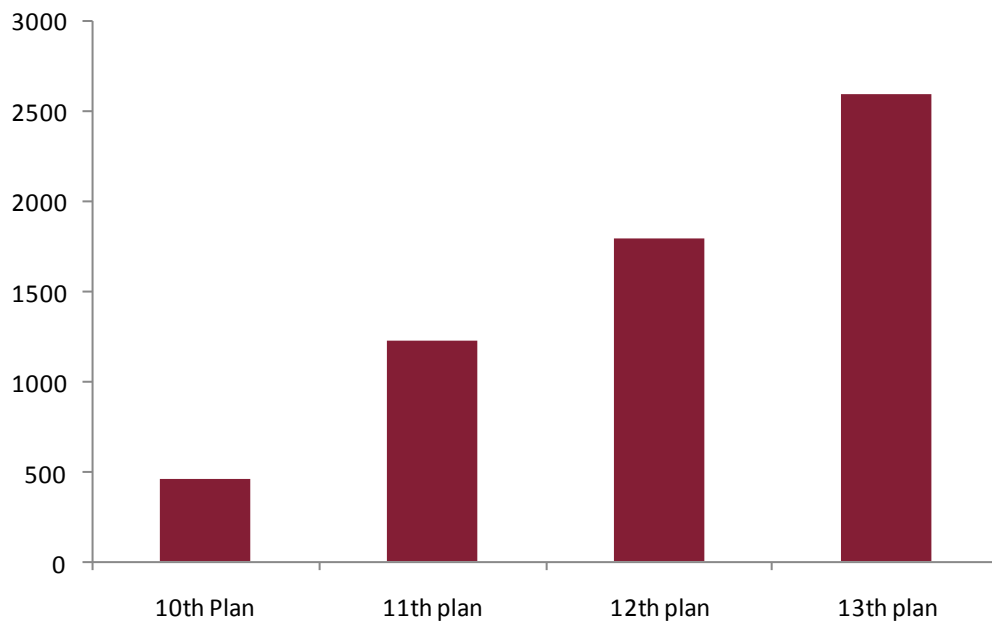
Industry Watch –Power Transmission & Distribution (India)

- India’s Power Transmission networks are the vital cog in the entire power value chain, as the growth of the entire power sector is contingent on the development of a robust and a non-collapsible transmission network. Over the decades, the total power capacity has witnessed a commendable growth with over **329,204 MW of capacity installed in India**. The Indian power sector has contributed significantly to the India growth story and continues to be on an accelerated growth path, as the Indian Government continues to exert significant thrust and has embarked on numerous initiatives to ensure and fulfill its dream of providing Electricity for ALL. Efforts are being undertaken to create a very facilitative environment that is conducive for the growth of this sector, including evacuation of Solar Power. With dedicated efforts aimed at creating proper systems and structures, the T&D infrastructure seems to be evolving and marching in the right direction. Huge investments have been planned and massive network interconnectivity is envisaged, with a focus on affordability & reliability, including substantial outlays by the State sector for expanding the intra-state transmission infrastructure, in addition to PGCIL’s annual capital outlay.
- The transmission sector has taken up several initiatives in order to expand the grid resource efficiently. For instance, to reduce Right Of Way (ROW) requirements for transmission lines, 765kV transmission voltage is increasingly being adopted. This is due to the fact that a single-circuit 765 kV line can carry as much power as three single-circuit 500 kV lines, three double circuit 345 kV lines, or six single-circuit 345 kV lines, reducing the overall number of lines and rights of way required to deliver equivalent capacity.
- India has witnessed a massive capex generation over the past decade and the country’s transmission capex is now catching up. This positions the T&D focused players in a sweet spot in terms of order inflows. **There is an estimated Rs. 2,600bn capex till 2022 which gives strong growth visibility for T&D players. Of this capex, Rs. 1,400bn is allocated towards transmission and Rs. 1,200bn in transformation.** Over 60% of the total spend is likely to come from states with Rs. 1,000bn of spending in inter regional grid capacity, Rs. 1,300bn in intra-regional grid capacity and Rs. 300 bn in distribution (sub 220KV) systems. In terms of Inter regional grid capacity, India is expected to add another 46GW during the five-year period from 2017-22.
- At the end of FY 2018, PGCIL has a CWIP of ~Rs. 380 bn which it expects to be executed over the next four years. Such an order book depicts the sustained robustness of growth for the T&D EPC companies. While PGCIL capex over the next few years will remain the mainstay for the T&D companies, newer opportunities in terms of intrastate transmission projects and renewables are expected. With SEB balance sheets improving post UDAY, there is renewed hope of increased capex within states.
- Except for West Bengal and Orissa, all the other states are part of UDAY. Of these, 16 DISCOMs aggregating to Rs. 3,200bn (approximately 80% of total DISCOM debts) have gone for restructuring of loans. The scheme has already yielded savings of nearly Rs. 120bn to the state power distribution companies. Over 85% UDAY Bonds have been issued leading to less rate of interest for DISCOM’s. As a result, there have been tangible improvements as ATC losses, which have come down to 22% (as

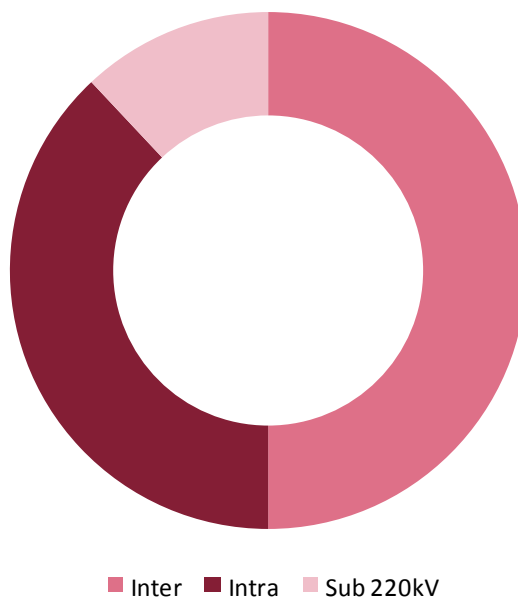
Growth in Transmission Sector (in CKM)



Power Transmission Capex (Rs. In bn)



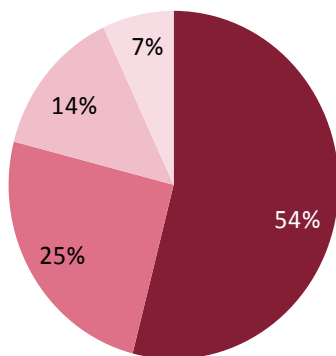
Break up of T&D Spend



Industry Watch – PVC Pipes & Fittings

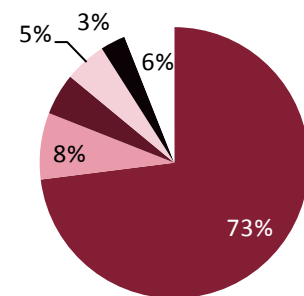
- The overall Indian Pipe Industry capacity estimated at 5 mn MTPA, of this the plastic pipe segment constitutes 35% of the overall capacity. The Indian plastic pipes industry with a capacity of 2mn MTPA is worth Rs. 220 bn and has grown at a 15% CAGR in the FY 2010-15 period and is expected to continue this pace over FY 2015-20E. This growth will be driven by the shift from the unorganized segment and government focus on irrigation as well as low cost housing projects. India Plastic Pipes industry remains a fairly organized industry, in comparison to other building product companies. The organized industry enjoys 60% market share in the Agricultural/MIS and PVC segments each, while the CPVC segment which is purely household has 80% organized market share. With reforms like GST and demonetization, the organized sector is expected to grow faster than the overall industry and capture market-share from the unorganized industry.
- In India, the demand for PVC pipes & fittings is expected to be driven by the following sectors:
 - ⇒ **Agriculture-** This sector is a vital cog in India’s economy, as it is still the principle means of earning a livelihood for the majority of the rural population. Citing this, the govt. has emphasized on bringing additional land under irrigation. In FY17, ~Rs. 1,872bn was spent towards rural, agricultural and allied sectors, which is ~20% over FY16’s allocation. In the Union Budget, the govt. has estimated an outlay of ~Rs. 14,340bn on rural livelihood and infra.
 - ⇒ **Infrastructure** – Under this, the govt. is focusing on rural water and sanitation infra, which could well turn out to be a huge market for PVC pipes, and in turn boost the demand for PVC. The development of smart cities could further give impetus to future demand.
 - ⇒ **Housing-** Affordable Housing was assigned the infrastructure status in FY18, post which the demand for the same from the middle-income group in India is expected to rise. The Govt. is taking initiatives to bridge the demand-supply gap. With higher building construction activities, the potential demand for PVC is set to go up. The concept of green buildings has seen considerable traction over the years, and PVC being recyclable, less energy intensive and long-living will see demand in this sub-segment.
 - ⇒ **Allied-** Apart from the above mentioned segment, PVC also has applications in the allied segments like Packaging, FMCG, Pharma and retail. With the expected growth in these segments in the coming years, the demand for PVC is also set to grow sequentially.

India Plastics Pipes Market (Rs. 220bn)



■ PVC Agriculture ■ PVC Household ■ CPVC ■ Others

PVC Applications in India



■ Pipes and Fittings ■ Flooring
 ■ Wires & Cables ■ Films & Sheets
 ■ Profiles ■ Others

Investment Rationale

1. Engineering Products (T&D) Segment – to continue to be the skipper of the pack.

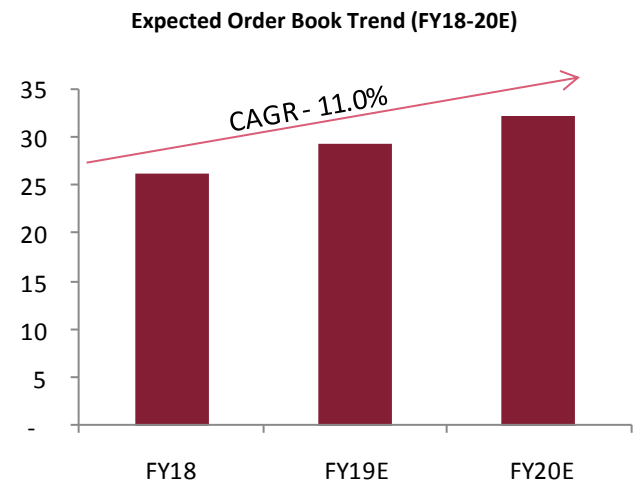
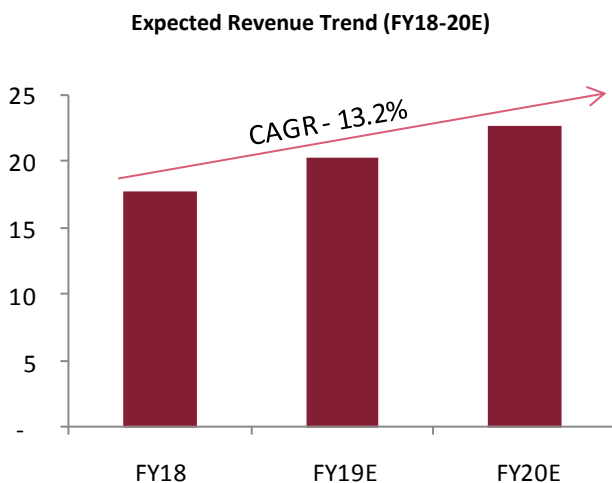
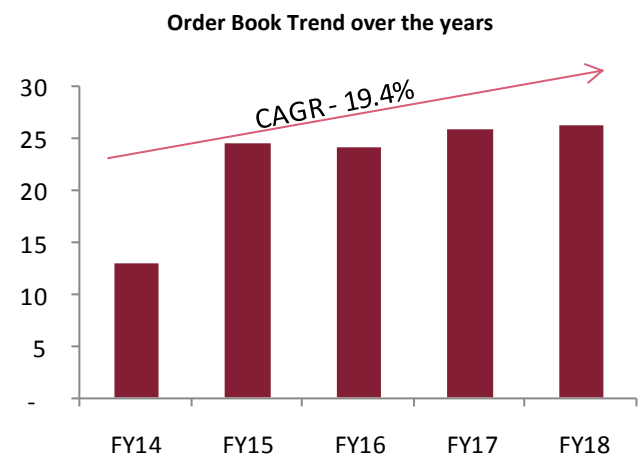
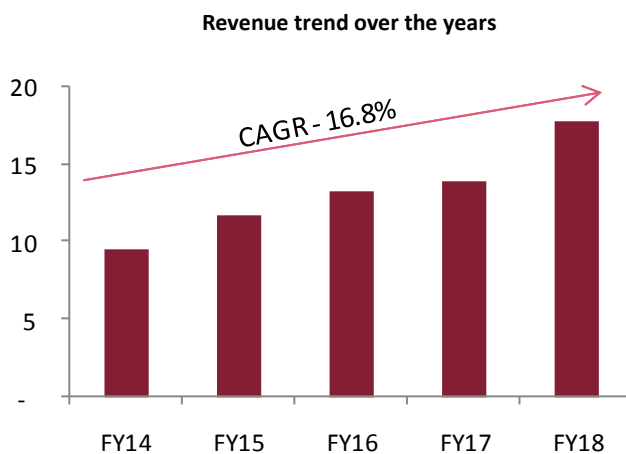
The Indian Power T&D industry has historically been very under-invested, however in recent years it have witnessed higher capex contributions from the govt through PGCIL. Post the slowdown in FY13-14, this sector has started to gain traction from FY16, which are signs of revival. Given the govt thrust via UDAY scheme and Electricity for All, this sector is expected to gain even higher traction, which augurs well for players like Skipper.

Over the years, Skipper has evolved to be a manufacturing centric company primarily focused on transmission tower manufacturing rather than EPC. It was the first company in India to manufacture and supply 800 kV transmission towers to PGCIL. The company is one of the lowest cost producers of transmission tower in the world. Skipper is also one of the first players to get into transmission monopoles production with that particular market gaining traction in recent times.

In terms of operations, the company is seeing a comparatively robust performance given the challenging scenario in the market primarily on account of macro policy changes like GST. PGCIL has always been a major contributor to the orders in this segment and contributes ~ 44% to the total order book of Rs. 26.3bn. The ordering in TBCB was lukewarm in FY18 as compared to previous years, but the same is expected to swing back in FY19, and with PGCIL planning to tie up with SEB's to build intrastate transmission projects, the outlook for the industry looks positive. From a macro perspective, govt. schemes like UDAY, Saubhagya, IPDS, DDUGJY are also proving to be opportunities waiting to be explored.

In terms of numbers, the revenue from this segment has grown at a robust CAGR of 16.8% over FY14-18 to Rs. 17.8bn, with the order book clocking a CAGR of 19.4% for the same period to Rs. 26.3bn (1.5x trailing book to bill). This segment contributes 86% to the total topline, and will continue to be the flagship segment of the company going ahead as well.

Given the macro environment and the internal capabilities of the company, we expect this segment to post a CAGR of 13.2% over the period of FY18-20E, while the order book is expected to post a CAGR of 11.0% over the same period.



Source: Company, Indsec Research

Product	Variants
Transmission Towers	Ranging from 66kV to 800 kV Indian & International material & grades BSEN, ASTM, GOST
Poles	Swaged Poles High Mast Poles Conical Poles Commercial, Residential, Municipal & Industrial Use
Monopoles	Application in Transmission & Telecom Towers
Distribution Poles	Street Lighting, Telecom Aerial Cabling Power Distribution lines, Signboards
Angles & Fasteners	Bolts, Nuts, Washers, etc.

2. Polymer Products – to aim to build capabilities and garner market share.

Skipper is the largest PVC pipes manufacturer in West Bengal with one of the largest capacities in Eastern India. The company has a cumulative production capacity of 51,000 TPA, with the utilization rate of 50%, which was lower on account of uncontrollable macro changes such as the GST. From the technological angle, the company has tie-ups with Sekisui of Japan for CPVC compound and Wavin Group of The Netherlands for advanced plumbing solutions. These partnerships open up the prospects of premium brand positioning and product differentiation. Going ahead, the company plans to capitalize on the healthy growth rate it has been achieving over the years, and increase its share of revenue from this segment.

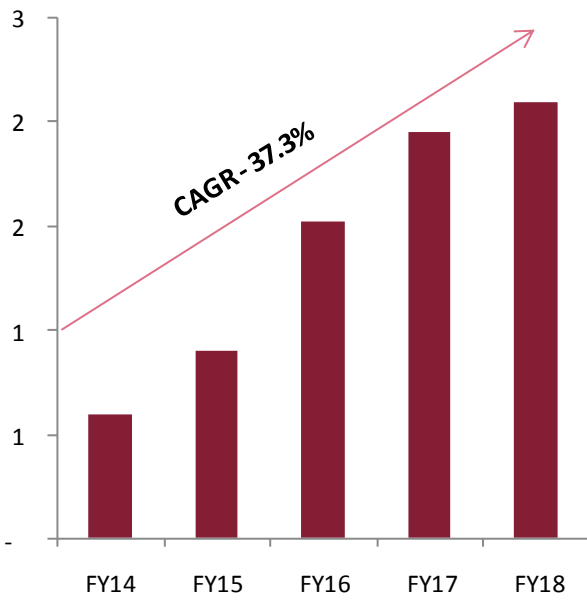
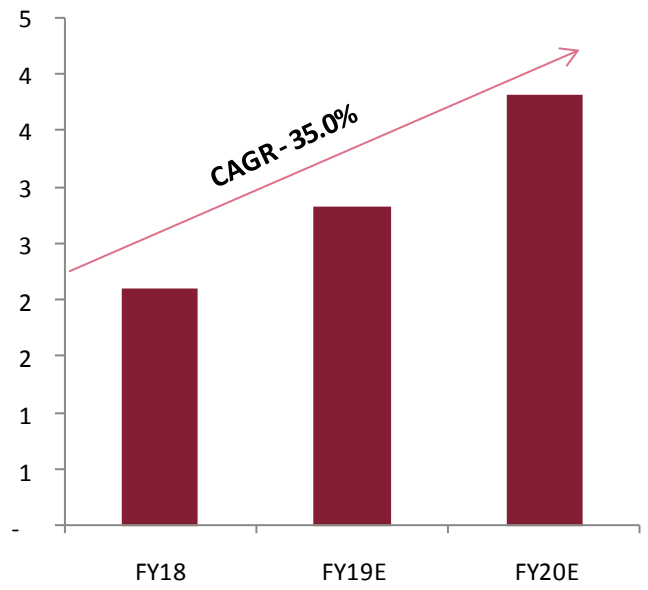
Further, the company in FY18 has engaged Vector Consulting Group to aid them in improving the performance of this division. Vector is a reputed organization which has assisted many companies across different sectors in India to achieve significant improvements in the operational performance. The aim is to build a strong sales organization which can quickly increase their reach and make their products available across the country. The operations will be managed through a full-based replenishment system, which will ensure high availability at distributors with lower inventory in the company's supply chain. Vector's role is to aid in setting up and developing a strong association with plumbers & contractors through a long term royalty program across relevant product range.

In FY18, the polymer business witnessed stagnancy owing to GST and the aftereffects of demonetization which was reflected in the overall tepid growth for FY18. The pipes & fittings primarily cater to the needs of the agricultural sector and the ratio of agri to plumbing currently stands at 65:35. Going ahead, there will be emphasis on increasing the share of the plumbing business due to slightly higher margins and the fittings are also utilized which is also a high margin product category. The idea mix going ahead would be 50:50.

In terms of numbers, the revenue from this segment has grown at a robust CAGR of 37.3% over FY14-18 to Rs. 2.1bn. This segment contributes 10% to the total topline, and considering the improving macro scenarios it is expected to clock a growth rate in line with its historical CAGR going ahead.

Given the initiatives the company is taking to build capabilities, we expect this segment to post a CAGR of 35.0% over the period of FY18-20E, with the share of the total pie expected to be in the range of 10-12%.

Source: Company, Indsec Research

Revenue trend over the years (Rs. In bn)

Expected Revenue Trend (Rs. In bn)

Pipes & Fittings Product Portfolio

Product	Variants
Plumbing & Sewage	CPVC Pipes & Fittings by DURASTREAM CPVC Compound UPVC - Lead free Pipes & Fittings SWR Pipes & Fittings
Borewell	Column Pipes Casing Pipes Ribbed Strainer Pipes
Agri	UPVC Agri Pipes

Source: Company, Indsec Research

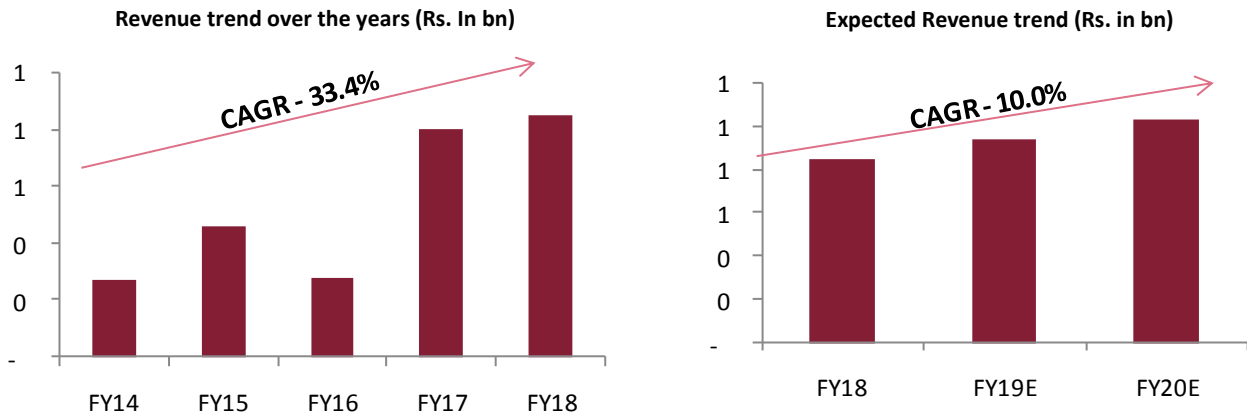
3. Forward Integration – through Infrastructure Projects:

Skipper is a fully integrated global infrastructure Engineering, Procurement and Construction (EPC) major. It offers integrated solutions across tower design, tower testing, manufacturing, and onsite construction. The company possesses a dedicated vertical for EPC line construction, with a specialized skill set to execute turnkey transmission projects up to 800 kV HVDC for various utilities. The Company is also engaged in Horizontal Directional Drilling (HDD) which facilitates the faster installation of underground utilities, eliminating the need for surface excavation.

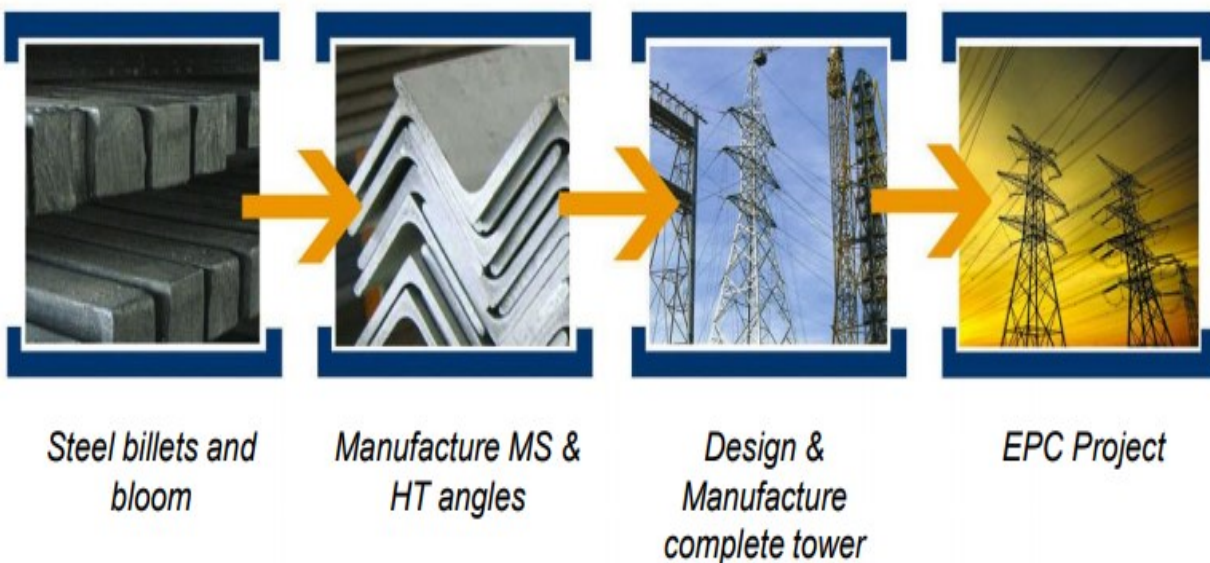
The Company is a pioneer of trench-less technology service in India. It provides Trenchless horizontal drilling for the installation of Telecoms cable networks, HT/LT Power cable networks, water & sewerage pipelines and oil and gas pipelines, among others. Using state-of-the-art equipment, we have accomplished successful projects across India.

In terms of numbers, this segment has grown at a robust CAGR of 33.4% to Rs. 0.9bn, backed by swift execution of projects which again exhibits the benefits of forward integration which the company enjoys. Although, this segment is still considered to be a non-core segment, as there are no aggressive measures in place to scale up business. However, this segment plays a significant role in giving Skipper an all-round edge. The company has orders worth ~Rs. 2bn, which are to be executed over a period of 18-24 months, thus indicating strong revenue visibility as well.

In light of this, we expect the revenue to clock a CAGR of 10.0% over FY18-20E, with the order book continuing to showcase revenue visibility in the range of 18-24 months.



How Forward Integration works



Source: Company, Indsec Research

Brief EPC Projects Portfolio
Key Projects Handled by Skipper

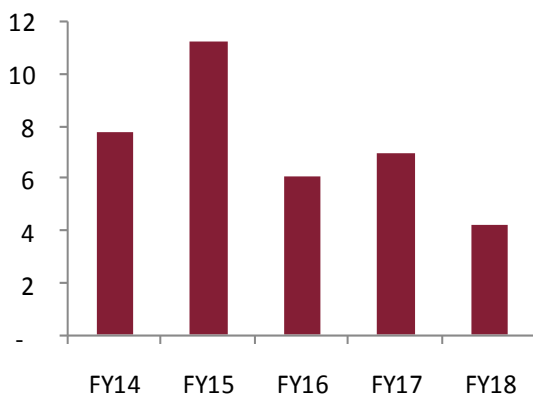
<p>1) 400 kV D/C Rapp (7&8) – Kota (Part A) Transmission Line for PGCIL</p> <p>2) 400 kV D/C Allahabad – Kanpur Transmission Line for PGCIL</p> <p>3) 400 kV D/C Jigmeling – Alipurduar (India Portion) Transmission Line for PGCIL</p> <p>4) 220/132Kv Dc/Sc Lines Against Package – 2 Of Tender Specification No Td 400/15 for UP Power Transmission.</p> <p>5) 220/132Kv Dc/Sc Lines Against Package – 3 Of Tender Specification No Td 400/15 for UP Power Transmission.</p> <p>6) 800Kv HVDC Raigarh – Pugalur Package – 09 for PGCIL</p>	<p>1) 400 kV D/C Panchkula – Patiala Transmission Line for PGCIL</p> <p>2) Partial work as allotted for Tower Package - A4, Islampur- Saharsa Section Inabensa for PGCIL.</p> <p>3) Partial work as allotted for Tower Package – A7 for Gorakhpur Gomti River Inabensa for PGCIL</p> <p>4) 400 kV D/C Quad Bhadla (Jaisalmer) to Bikaner Transmission Line for RRVPN</p>
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4. Growing Exports – to help deleverage the domestic business :

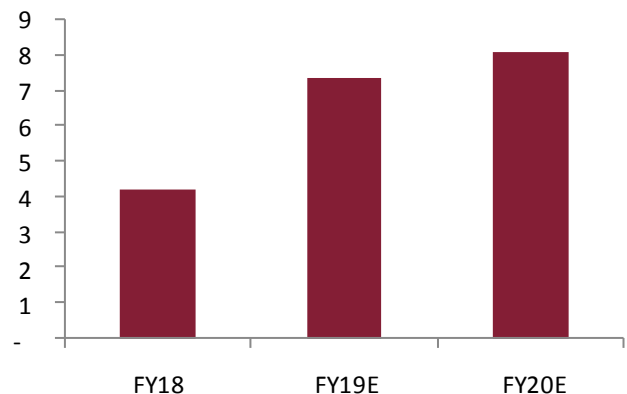
Apart from being a strong domestic player in the T&D segment, Skipper also enjoys a strong presence in the overseas T&D market and is increasingly focusing on developing new market geographies to further expand its international reach. In recent years, the Company gained entry into the newer market geographies of Asia and Africa by bagging new orders in Botswana, Kenya, Tanzania, Cameroon, Congo, Ghana, Philippines and Malaysia.

Exports currently form 16% of the total order book as on FY18. Considering the recent devaluation of the rupee, one could expect a better inflow of orders from international waters, and the share of the pie of export will also go up in the region of 25%. The domestic demand looks promising, but the demand for electricity and power arising from countries like Botswana, Kenya, LATAM region, etc., is also expected to propel the exports towards new highs, which will in turn reduce the dependence on domestic orders. We expect Export orders to grow at a CAGR of 38.7% over FY18-20E, and expect their share to be in the region of 25%.

Export Orders Historical Trend (Rs. In bn)



Export Orders Historical Trend (Rs. In bn)



Source: Company, Indsec Research

Valuation and Recommendation :

Skipper Limited is one of the world's largest Integrated Transmission Tower manufacturing companies with Angle Rolling, Tower, Accessories & Fastener manufacturing and EPC line construction. It is the Largest manufacturer of T&D structures in India and among top 10 globally, and is also one of the largest & the fastest growing Polymer Pipes & Fittings in India. The company has 4 power grid approved Transmission tower & poles manufacturing plants with a combined engineering capacity of 2,65,000 MTPA, and has also been awarded as "Largest Tower Supplier" by PGCIL & "Best Industry in Water Resources sector" by Central Board Of Irrigation And Power.

In FY18, the company reported a robust growth in their topline despite challenging macro environments in the T&D sector; however growth in the Polymer products segment was muted on account of GST. Going ahead, the T&D segment is expected to post steady growth driven by domestic as well as international order flows. The Polymer products segment is expected to post a robust growth on back of several initiatives, which the company has taken and we also expect the company to garner market share in this segment. The Infrastructure projects segment contributes marginally to the overall company's business portfolio, and the same is expected to continue as no active efforts are being taken to scale up said business.

In terms of numbers, the topline for the company has grown at a CAGR of 18.8% for the period FY14-18 to Rs.20.7bn, while the EBITDA has grown at a CAGR of 28.7% for the same period to Rs. 3.0bn with OPM standing at 14.6%. Skipper's bottom line has grown at an impressive CAGR of 44.6% for the FY14-18 period to Rs. 1.2bn with net margins coming in 5.7%. To support the impressive margin profile, Skipper also earns impressive return ratios with ROCE clocking 23.4% and ROE coming in at 18.5% for FY18.

We expect the Topline to grow at CAGR of 15.5% over FY18-FY20E to Rs. 27.7bn, while EBITDA is expected to grow at CAGR of 13.9% with margins expected to be at 14.2%. At CMP of Rs 185 the stock is trading at 13.4x and 10.5x on our earnings of Rs. 13.81 and Rs. 17.61 for FY19E and FY20E respectively. With the likely growth in the Power T&D and Polymer segments, we expect Skipper to capitalize on the opportunities present in both the International and domestic markets. The company has capex in line for capacity expansion in certain product ranges like the fittings, CPVC business & HDPE business along with regularly scheduled maintenance capex. In terms of relative valuation, the company does not have any exact peer when taking the business model into consideration, but we've taken EPC players in the T&D business like Kalpataru Power Transmission (KPTL) & KEC International which on an average trade at 16x FY20E P/E multiple. We believe that given the likely tailwinds in the international markets on account of rupee devaluation and the ramp up in orders from the domestic segment, Skipper could trade at similar valuations going ahead. Further, Skipper has historically traded at a one year forward range of 16-18x. Hence, we assign a target PE multiple of 16x for the stock on our FY20E earnings of Rs. 17.61, post which we arrive at a target of Rs. 282; which implies an upside of 52% from the current levels. We assign a BUY call on the stock.

Risk to Call:

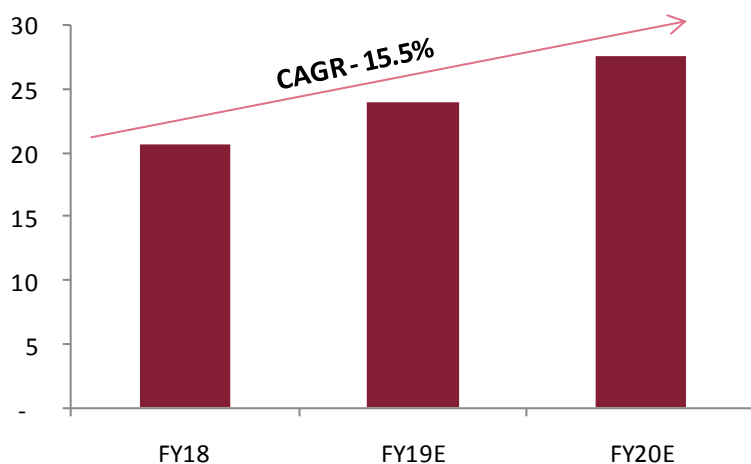
Forex Volatility— A considerable chunk of the company's revenue comes from across the Indian border, which exposes the company to foreign exchange volatility risk.

Slowdown in PGCIL tendering— PGCIL contributes close to 45% to the total order book of the company, and any slowdown in PGCIL tendering could further affect the growth of the company.

Execution Risk— The company's reputation and callback from the customers depends on the quick and timely execution of the projects by them. Any delays in executions could pose a severe threat to their order flows.

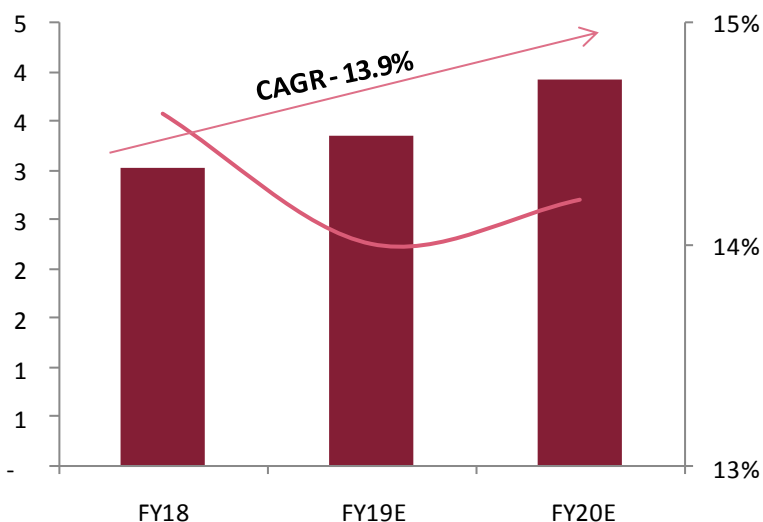
The Topline is expected to grow by 15.5% CAGR between FY18-20E to Rs. 27.7bn on the back growth in Power T&D and Polymer Products segment.

Revenue (Rs bn)



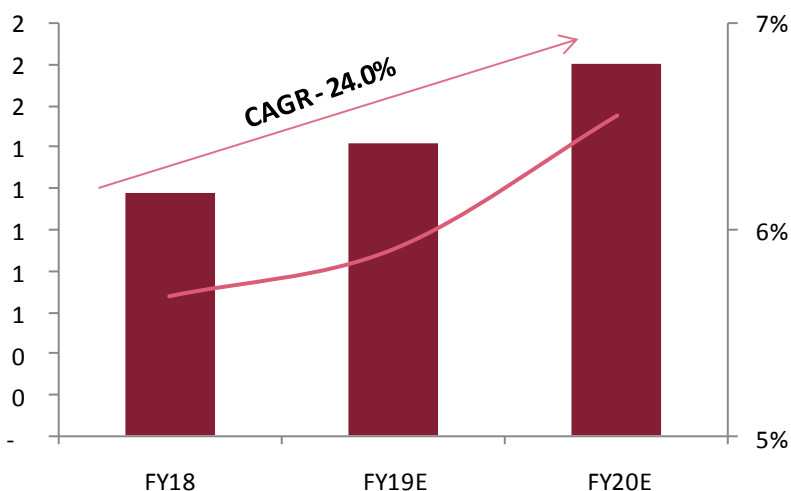
EBITDA is expected to grow by 13.9% CAGR between FY18-20E to Rs. 3.9bn while OPM is expected to be 14.2%.

EBITDA (Rs bn) (OPM)(in %)



PAT is expected to grow by 22.1% CAGR between FY18-20E to Rs. 1.8bn while NPM is expected to be in the region of 6.55%.

PAT (Rs bn) & PAT Margins (%)



Source: Company & Indsec Research

SUMMARY INCOME STATEMENT

<i>(in mn)</i>	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue from Operations	10,426	13,554	15,501	16,646	20,737	24,067	27,655
Cost Of Revenues (incl Stock Adj)	7,600	8,797	9,485	10,908	13,246	15,463	17,699
Gross Profit	2,826	4,756	6,016	5,738	7,491	8,604	9,956
Employee Cost	274	341	500	745	934	1,143	1,383
Other Operating Expenses	1,439	1,838	2,885	2,271	3,532	4,091	4,646
EBITDA	1,113	2,577	2,631	2,722	3,025	3,369	3,927
Other Income	21	17	52	32	22	26	30
Net Interest Exp.	605	583	570	671	784	834	781
Depreciation	151	220	241	316	459	502	551
Exceptional Items	0	0	0	0	0	0	0
PBT	378	1,791	1,872	1,767	1,804	2,099	2,625
Tax	98	474	482	525	626	639	814
Profit After Tax	280	1,317	1,390	1,242	1,178	1,421	1,812
EPS	2.72	8.72	9.30	12.14	11.43	13.81	17.61

SUMMARY BALANCE SHEET

<i>(in mn)</i>	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Assets							
Net Block	3,385	3,513	3,852	4,968	5,209	5,323	5,521
Capital WIP	83	35	399	144	16	150	150
Intangible Assets under development	-	-	-	-	-	-	-
Other Non current Assets	21	31	22	156	29	29	29
Long term loans and advances	-	-	-	8	9	9	9
Current Assets							
Current Investment	-	-	-	-	-	-	-
Inventories	2,290	2,282	2,500	3,682	5,623	6,396	7,198
Trade receivables	2,318	3,758	3,724	3,722	5,164	5,934	6,667
Cash and Bank Balances	263	561	498	249	176	324	612
Short-term loans and advances	455	458	907	39	36	66	76
Other Current Assets	-	-	-	940	1,174	1,319	1,440
Total Current Assets	5,326	7,059	7,629	8,632	12,173	14,039	15,993
Current Liabilities & Provisions							
Trade payables	1,563	2,415	2,124	2,892	4,903	5,539	6,213
Other current liabilities	626	1,277	938	886	956	966	932
Short-term provisions	25	208	193	5	1	-	-
Total Current Liabilities	2,214	3,900	3,255	3,782	5,861	6,504	7,145
Net Current Assets	3,112	3,159	4,374	4,850	6,312	7,535	8,848
Total Assets	6,602	6,736	8,648	10,126	11,575	13,046	14,557
Liabilities							
Share Capital	102	102	102	102	103	103	103
Reserves and Surplus	2,209	2,936	3,713	5,219	6,270	7,691	9,503
Total Shareholders Funds	2,312	3,039	3,815	5,321	6,373	7,794	9,606
Money Received against warrants	-	-	-	-	-	-	-
Total Debt	4,062	3,431	4,504	4,154	4,613	4,663	4,363
Long Term Provisions	-	2	13	24	44	44	44
Other Long Term Liabilities	10	-	-	2	6	6	6
Net Deferred Tax Liability	218	265	315	626	539	539	539
Total Liabilities	6,602	6,736	8,648	10,126	11,575	13,046	14,557

SUMMARY CASH FLOW STATEMENT

<i>(in mn)</i>	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
PBT	367	1,366	1,433	1,767	1,804	2,060	2,625
Depreciation & Amortisation	151	220	241	316	459	502	551
Other Adjustments	622	612	589	664	784	834	781
(Inc) / Dec in Working Capital	(85)	(121)	(1,157)	(412)	(1,372)	(908)	(861)
Taxes	(48)	(338)	(455)	(452)	(626)	(639)	(814)
Cash from Ops.	1,007	1,738	651	1,883	1,049	1,850	2,283
Capital Expenditure & investments	(316)	(316)	(919)	(797)	(571)	(750)	(750)
Cash from Investing	(316)	(316)	(919)	(797)	(571)	(750)	(750)
Issue of Share capital	-	-	-	-	-	-	-
Net Borrowings	(181)	(566)	853	(304)	459	50	(300)
Others	(602)	(576)	(565)	(671)	(784)	(834)	(781)
Issuance of Dividend	(11)	(18)	(160)	(172)	(194)	(194)	(194)
Cash from Financing	(794)	(1,160)	128	(1,147)	(518)	(978)	(1,274)
Extraordinary receipts/payment	-	-	-	-	-	-	-
Net Change in Cash	(103)	261	(140)	(61)	(41)	122	259
BF Cash	128	25	286	146	15	8	156
END Cash	25	286	146	15	8	156	444

SUMMARY RATIOS

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<u>Profitability</u>							
Return on Assets	3.1%	8.4%	8.0%	8.9%	6.8%	7.3%	8.3%
Return on Capital	14.9%	29.9%	23.5%	25.4%	23.4%	23.0%	24.2%
Return on Equity	11.6%	29.3%	24.9%	23.3%	18.5%	18.2%	18.9%
<u>Margin Analysis</u>							
Gross Margin	27.1%	35.1%	38.8%	34.5%	36.1%	35.8%	36.0%
EBITDA Margin	10.6%	16.4%	14.6%	16.4%	14.6%	14.0%	14.2%
Net Income Margin	2.6%	6.8%	6.3%	7.5%	5.7%	5.9%	6.6%
<u>Short-Term Liquidity</u>							
Current Ratio	1.3x	1.3x	1.3x	1.4x	1.4x	1.4x	1.6x
Quick Ratio	1.3x	1.2x	1.3x	1.4x	1.4x	1.4x	1.5x
Avg. Days Sales Outstanding	81	104	90	82	91	90	88
Avg. Days Inventory Outstanding	80	63	61	81	99	97	95
Avg. Days Payables	55	67	51	63	86	84	82
<u>Long-Term Solvency</u>							
Total Debt / Equity	1.8x	1.1x	1.2x	0.8x	0.7x	0.6x	0.5x
EBITDA / Interest Expense	1.6x	3.3x	3.4x	3.6x	3.3x	3.4x	4.3x
<u>Valuation Ratios</u>							
EV/EBITDA	20.6x	10.1x	10.5x	8.4x	7.7x	6.9x	5.8x
PER	68.0x	21.2x	19.9x	15.2x	16.2x	13.4x	10.5x
P/B	8.2x	6.2x	5.0x	3.6x	3.0x	2.4x	2.0x

INDSEC Rating Distribution

BUY : Expected total return of over 25% within the next 12 months.

ACCUMULATE : Expected total return between 10 to 25% within the next 12 months.

REDUCE : Expected total return below 10% within the next 12 months.

SELL : Expected total return is below the market return within the next 12 months.

NEUTRAL: No investment opinion on the stock under review.

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