



CMP	95	Rating	ACCUMULATE
Target	107	Upside	12%

Sluggish segmental performance leads to tepid growth in topline- For the qtr., Skipper reported a topline growth of 1.6% YoY to Rs 5.2bn, on back of a 3.1% YoY increase in the Engineering segment revenue (~91% of total rev) to Rs. 4.8bn, however the Polymer Products segment (~7% of total rev) reported a de-growth of 16.1% YoY to Rs. 0.6bn.

Rmat cost & Forex Loss dent OPM - EBTDA for the qtr., declined by 43.2% YoY to Rs. 0.4bn with OPM contracting by 584bps YoY to 7.1%, which was mainly attributable to a 222bps YoY increase in Rmat cost and a 398bps YoY increase in Other Expenses (due to incurrence of forex loss arising from hedging activities)

Engineering Products EBIT margins contracted by ~513bps to 7.9%, whereas Polymer Products continued to report an EBIT loss as compared to an EBIT margin of 6.6% in Q2FY18.

Weaker Operating Show & higher Finance cost dent PAT- PAT for the qtr declined by 89.2% YoY to Rs. 24mn, impeded by a weak operating performance coupled with a higher Finance Cost by 28.1% to Rs. 0.3bn. NPM contracted by 403bps YoY to 0.5%.

STOCK DETAILS	
BSE Code	538562
NSE Code	SKIPPER
Market Cap (Rs.bn)	9.2
Sector	Construction & Engineering
Group/Index	B/ S&P BSE SmallCap
Year End	March
52 w.High/Low	293/115
Avg Monthly Turnover (Rs.mn)	187.3
Shares in Issue (mn)	102.6
BSE Sensex	35,114
NSE Nifty	10,583

About the company: 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 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.

CONSOLIDATED FINANCIALS				
Rs in bn	FY17	FY18	FY19E	FY20E
Revenue	16.6	20.7	23.2	27.1
EBIDTA	2.7	3.0	2.5	3.1
EBIDTA(%)	16.4%	14.6%	11.0%	11.5%
PAT	1.2	1.2	0.7	1.0
EPS (Rs.)	12.14	11.43	6.66	9.69
P/E (x)	7.8	8.3	14.3	9.8

Source: Company, Indsec Research

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Result (Rs.bn)	Q2FY19	Q2FY18	Q1FY19	Y/Y(%)	Q/Q(%)
Revenue	5.2	5.2	4.8	+1.6%	+9.5%
EBITDA	0.4	0.7	0.4	-43.2%	-13.7%
EBITDA(%)	7.4%	13.2%	9.4%	-584bps	-199bps
PAT	0.02	0.2	0.04	-89.3%	-44.6%
PAT(%)	0.5%	0.9%	4.5%	-403bps	-46bps
EPS	0.24	0.44	2.26	-89.2%	-44.6%

Key Takeaways:

Business Segment Performance- The topline for the company reported a muted growth on back of sluggish performance in their key segments.

⇒ **Engineering Products:** This segment reported a tepid growth of 3.1% YoY jump in topline to Rs. 4.8bn. The sluggishness was on account of lack of short term orders in the market as well as slower project execution due to a strong monsoon and hurdles in several regions as a result of state elections.

⇒ **Polymer Products:** This segment reported a 16.1% YoY de-growth in revenue to Rs. 0.6bn as a result of strategic shifting of capacity from Telangana & Sikandrabad to Uluberia plant in West Bengal. The company is changing focus from Agricultural to Plumbing in pipes, which is expected to increase volumes and margins.

⇒ **Infrastructure Segment:** The EPC division contributes a very civil share in the total offerings portfolio of the company. Revenue in this segment grew by 10.4% YoY to Rs. 104.5mn.

Stringent industry conditions - In the current qtr the company faced several headwinds on account of slow off take and delay in execution of T&D projects, and increasing penetration costs leading to lower margins in the polymer segments. From the margins perspective, Skipper also witnessed higher Rmat prices of Steel & Zinc, which could not be passed on due to Fixed Price Contracts.

Forex Impact - The sharp depreciation in the rupee has led to a notional MTM loss on account of forward hedging. This notional loss in Q2FY19 stood at Rs. 147mn and ~Rs. 200mn in H1FY19. Skipper hedged all of their export receivables through forward contracts.

Demerger - The Board has approved a business restructuring scheme to demerge the Polymer Products division (except Palasbari) into Skipper Pipes Limited (SPL). The demerger ratio is 1:1.

Outlook - Mgmt has reduced their growth guidance in the EP segment to ~10% from the earlier guided ~15%, citing the headwinds the industry is facing. Similarly, OPM guidance has also been slashed to ~11% from the earlier guided ~13%, owing to higher Steel and Zinc cost and the MTM loss arising out of the rupee depreciation.

Valuation and View: Skipper continued to face headwinds in the T&D industry on account of lack of short term orders and a slower execution of projects. From an operational perspective, the vendors of the company are currently facing a credit squeeze which has resulted in a reduction in trade payables, increase in advances as well as increase in Working Capital Borrowings which has also led to a spike in the Interest cost.

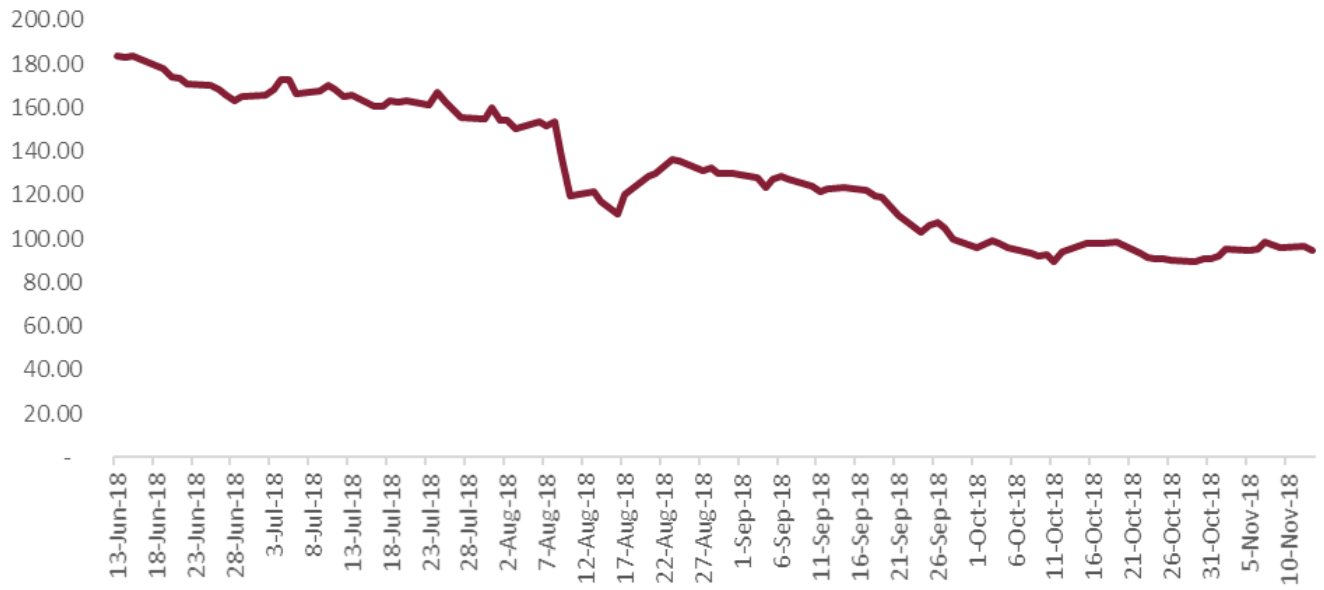
To factor in the revised management guidance on the EP revenue growth we have cut our revenue estimates by 3.7%/2.0% for FY19E/FY20E, respectively while OPM has also been slashed by 125bps/170bps for FY19E/FY20E, respectively to factor in the higher Rmat prices and the MTM loss. Further, the increased WC borrowings has led us to increase our interest cost estimates by 19.9%/18.5% for FY19E/FY20E, respectively.

As a result of the above, we have cut our earnings estimates by 36.9%/33.1% for FY19E/FY20E, respectively to Rs. 6.66 (Rs. 10.55)/ Rs. 9.69 (Rs. 14.49), respectively.

We now expect the Topline to grow at CAGR of 14.3% over FY18-FY20E, while EBITDA is expected to grow at CAGR of 1.5% with margins expected to remain around the 11.50% region.

At CMP of Rs. 95 the stock is trading at 14.3x FY19E and 9.8x FY20E on expected earnings of Rs 6.66 and Rs 9.69 for FY19E & FY20E respectively. The macro environment in the Power T&D is challenging given the bleak order flows from PGCL. However, the diversified order book of Skipper (~Rs. 24bn i.e. ~1.4x FY18 sales) and the increasing share of the Non-T&D products could bode well for the company and reduce the pressure on the T&D segment. Factoring in the stringent industry conditions and the near term pressure on the margins of Skipper, we have reduced our target multiple downwards to 11x (13x) on FY20E earnings of Rs. 9.69 post which we arrive at a target price of Rs. 107, which implies an upside of 12% from current levels. We assign an Accumulate call to the stock.

Stock Price movement from Initiation (13th June 2018) to 13th November, 2018



SUMMARY INCOME STATEMENT							
(in mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	10,426	13,554	15,501	16,646	20,737	23,181	27,109
Cost Of Revenues (incl Stock Adj)	7,600	8,797	9,485	10,908	13,246	15,357	17,892
Gross Profit	2,826	4,756	6,016	5,738	7,491	7,824	9,217
Employee Cost	274	341	500	745	934	1,101	1,355
Other Operating Expenses	1,439	1,838	2,885	2,271	3,532	4,173	4,744
EBITDA	1,113	2,577	2,631	2,722	3,025	2,550	3,117
Other Income	21	17	52	32	22	25	30
Net Interest Exp.	605	583	570	671	784	1,076	1,147
Depreciation	151	220	241	316	459	499	549
Exceptional Items	0	0	0	0	0	0	0
PBT	378	1,791	1,872	1,767	1,804	1,000	1,451
Tax	98	474	482	525	626	310	450
Profit After Tax	280	1,317	1,390	1,242	1,178	690	1,001
EPS	2.72	8.72	9.30	12.14	11.43	6.68	9.71

SUMMARY BALANCE SHEET							
(in mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Assets							
Net Block	3,385	3,513	3,852	4,968	5,209	5,325	5,527
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	6,160	7,056
Trade receivables	2,318	3,758	3,724	3,722	5,164	5,716	6,536
Cash and Bank Balances	263	561	498	249	176	1,213	1,282
Short-term loans and advances	455	458	907	39	36	64	74
Other Current Assets	-	-	-	940	1,174	1,270	1,411
Total Current Assets	5,326	7,059	7,629	8,632	12,173	14,423	16,359
Current Liabilities & Provisions							
Trade payables	1,563	2,415	2,124	2,892	4,903	5,335	6,090
Other current liabilities	626	1,277	938	886	956	936	917
Short-term provisions	25	208	193	5	1	-	-
Total Current Liabilities	2,214	3,900	3,255	3,782	5,861	6,271	7,007
Net Current Assets	3,112	3,159	4,374	4,850	6,312	8,151	9,352
Total Assets	6,602	6,736	8,648	10,126	11,575	13,665	15,066
Liabilities							
Share Capital	102	102	102	102	103	103	103
Reserves and Surplus	2,209	2,936	3,713	5,219	6,270	6,960	7,962
Total Shareholders Funds	2,312	3,039	3,815	5,321	6,373	7,063	8,064
Money Received against warrants	-	-	-	-	-	-	-
Total Debt	4,062	3,431	4,504	4,154	4,613	6,013	6,413
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	13,665	15,066

SUMMARY CASH FLOW STATEMENT							
(in mn)	FY14	FY15	FY16	FY17E	FY18	FY19E	FY20E
PBT	367	1,366	1,433	1,767	1,804	1,000	1,451
Depreciation & Amortisation	151	220	241	316	459	499	549
Other Adjustments	622	612	589	664	866	1,076	1,147
(Inc) / Dec in Working Capital	(85)	(121)	(1,157)	(412)	(1,428)	(658)	(960)
Taxes	(48)	(338)	(455)	(452)	(476)	(310)	(450)
Cash from Ops.	1,007	1,738	651	1,883	1,226	1,608	1,738
Capital Expenditure & investments	(316)	(316)	(919)	(797)	(419)	(750)	(750)
Cash from Investing	(316)	(316)	(919)	(797)	(419)	(750)	(750)
Issue of Share capital	-	-	-	-	-	-	-
Net Borrowings	(181)	(566)	853	(304)	564	1,400	400
Others	(602)	(576)	(565)	(671)	(793)	(1,076)	(1,147)
Issuance of Dividend	(11)	(18)	(160)	(172)	(191)	(191)	(191)
Cash from Financing	(794)	(1,160)	128	(1,147)	(419)	133	(938)
Extraordinary receipts/payment	-	-	-	-	-	-	-
Net Change in Cash	(103)	261	(140)	(61)	388	991	49
BF Cash	128	25	286	146	15	8	1,045
Forex	-	-	-	(70)	-	46	20
END Cash	25	286	146	15	403	1,045	1,114

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%	3.5%	4.5%
Return on Capital	14.9%	29.9%	23.5%	25.4%	23.4%	15.7%	17.7%
Return on Equity	11.6%	29.3%	24.9%	23.3%	18.5%	9.8%	12.4%
<u>Margin Analysis</u>							
Gross Margin	27.1%	35.1%	38.8%	34.5%	36.1%	33.8%	34.0%
EBITDA Margin	10.6%	16.4%	14.6%	16.4%	14.6%	11.0%	11.5%
Net Income Margin	2.6%	6.8%	6.3%	7.5%	5.7%	3.0%	3.7%
<u>Short-Term Liquidity</u>							
Current Ratio	1.3x	1.3x	1.3x	1.4x	1.4x	1.3x	1.4x
Quick Ratio	1.3x	1.2x	1.3x	1.4x	1.4x	1.2x	1.3x
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	0.9x	0.8x
EBITDA / Interest Expense	1.6x	3.3x	3.4x	3.6x	3.3x	1.9x	2.2x
<u>Valuation Ratios</u>							
EV/EBITDA	12.3x	5.8x	6.3x	5.0x	4.7x	5.7x	4.8x
PER	34.9x	10.9x	10.2x	7.8x	8.3x	14.2x	9.8x
P/B	4.2x	3.2x	2.5x	1.8x	1.5x	1.4x	1.2x

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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