Initiating Coverage

Skipper Ltd

Powering India…

July 04, 2016

BUY

CMP (₹)	Target (₹)
153	205
Potential Upside	**Absolute Rating**
34%	BUY

Market Info *(as on July 01, 2016)*	
BSE Sensex	27145
Nifty S&P	8328

Stock Detail	
BSE Group	B
BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPER IN
Market Cap (₹bn)	15.63
Free Float (%)	28%
52wk Hi/Lo	219.90 / 116.00
Avg. Daily Volume (NSE)	106445
Face Value / Div. per share (₹)	1.00 / 1.30
Shares Outstanding (mn)	102.3

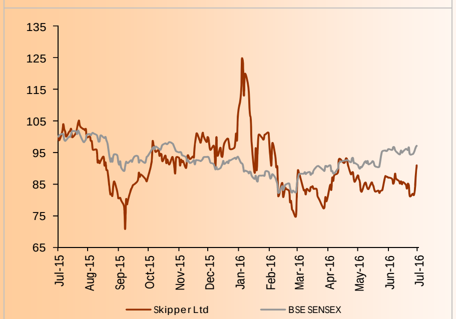
Shareholding Pattern (in %)

Promoters	Public
72.37	27.63

Financial Snapshot (₹mn)

Y/E Mar	FY15A	FY16A	FY17E	FY18E
Net Sales	12,708	14,881	18,900	23,008
EBITDA	1,733	2,012	2,629	3,196
PAT	901	953	1,209	1,551
EPS	8.8	9.3	11.8	15.2
ROE (%)	29.7%	25.0%	25.1%	25.5%
ROCE (%)	18.0%	15.6%	16.4%	17.7%
P/E	17	14	13	10
EV/EBITDA	10	8	7	5

Share Price Performance



Rel. Perf.	1Mth	3 Mths	6Mths	1Yr
Skipper (%)	4.2	13.1	(15.3)	(8.4)
SENSEX (%)	1.6	7.4	3.8	(3.1)

Source: Company data, Institutional Research

Company Snapshot

Skipper Ltd is a Kolkata based, flagship company of S.K bansal Group. It is India's second largest transmission tower manufacturing company & tenth largest in the world, having production capacity of 200,000 MTPA. It is also one of the world's largest integrated transmission tower manufacturing companies with angle rolling, tower accessories & fastnerer manufacturing capacity & EPC line construction. Company is also engaged in production of PVC pipes business. Company has currently five manufacturing facilities for plastics pipes & fitting located across pan India with production capacity of 41,000 MTPA. Company currently has presence in two most critical resources that define economic progress & social wellbeing i.e. Power & Water

Investment Rationale

Robust order book in Engineering Product segment

Engineering product segment contributes 88% to total sales in FY16. In last five years, engineering product segment has grown 19% CAGR. This is largely due to strong order book growth. In last five years, order book has grown at CAGR of 45%. Skipper has current outstanding order book of ₹2,429 crore, which provides a revenue visibility of next couple of years. With high growth momentum in power transmission sector coupled with strong execution capabilities & robust order book, we believe, company to sustain its 19% CAGR growth over FY16-FY18E.

Backward Integration & strategic advantage of plant location to continue to support better margins

Skipper has three manufacturing facilities in Kolkata. Backward integration has enables company to have complete control over the value chain from angles to tower production to fasteners to EPC with a high degree of performance. Also, these plants are located in close to proximity to source of raw materials, which results into lower logistics cost. Strategic advantage of plant location & integrated operation has led to cost advantage & this will enable company to continue to sustain & enjoy 3-4% margin advantage over its competitive peers.

Capacity expansion in polymer product segment to boost future growth

In last few years, company have also diversified its business into PVC pipes & fitting segment. Company currently has five manufacturing facilities across pan India with a total production capacity of 41000 mtpa. Company expects to expand its PVC pipe capacity to 100,000t by FY19E & expects potential revenue ₹800-1000cr in next few years at optimum utilization capacity. Management indicated that revenue contribution from PVC pipe to increase from current 10% in FY16 to around 25% by FY19E.

Strong financial & operational performance

In last five years, company's revenue & profitability has grown 19% & 57% CAGR respectively. EBITDA margin have also improved from 8.3% in FY12 to 13.8% in FY16. During FY16, company's external credit rating was upgraded by CARE from A- to A+ on account of improved operational & financial performance. We believe, company to grow its revenue & profitability at 24% & 28% CAGR respectively over FY16-FY18E led by robust order book in engineering segment & continuation of strong momentum in polymer product business.

Valuation

At CMP ₹153, company trades at 16.4x & 10x its FY16 EPS & FY18E EPS of ₹9.3 and ₹15.2 respectively. With robust order book in engineering product division coupled with continuation of strong growth momentum in polymer product business, we believe, company is firmly place on a high growth trajectory over next two years. Hence, we initiate coverage on Skipper with a **BUY** rating and attach a multiple of 13.5x to Skipper FY18E (EPS) of ₹15.2 to arrive at the target price of ₹205, indicating a potential upside of 34% from current level.

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Company Background

Skipper Ltd was incorporated in 1981. It is the flagship company of S.K Bansal Group. Skipper Ltd, is a Kolkata based, India's second largest tower manufacturing company with production capacity of 200,000 mtpa. It is also one of the India's largest integrated transmission tower manufacturing companies having capacity for manufacturing angle rolling, tower accessories, fastener & EPC line construction. In last few years, company has also diversified into the plastic pipe business. It is one the largest producer of plastic pipes & fittings in West Bengal & has captured 10% of eastern India market. Looking at the success of PVC pipes & fittings in eastern market, company enhanced its scale to other regions of India. Company currently have production capacity of 41,000 mtpa located across pan India. Thus, company currently has presence in two most critical resources that define economic progress & social wellbeing i.e. Power & Water.

Historical Journey of Skipper Ltd:

2015-16	New PVC unit got operational at Ahmedabad, Guwahati & Sikandrabad
2015-16	• Listed with NSE, a premiere stock exchange of India • Technological tie up with SEKISUI of Japan for CPVC compound.p
2014	Listed with BSE, nationwide premier stock exchange
2013	• Crossed revenue of INR 1000 crore • Alliance agreement with the South Americas largest TSO for exclusive supply to their transmission project
2010	Entered into backward integration of the two major product verticals Tubes & Tower, by way of strip mill and angel mill respectively
2009	Commissioned Uluberia unit with first PVC unit and India's first double side GI plant
2009	Got India's first order for 800KV transmission towers from PGCIL
2008	Started process of conversion of Tower production process from manual to automated CNC
2006	Entered into a manufacturing Tie-up with Ramboll, Denmarkthe world's largest Tower design company
2006	Got POWERGRID approval for Tower unit and first order itself for 400KV towers (the highest voltage level at that time)
2006	Crossed revenue of INR 100 Crore
2005	Set up first Galvanizing Plant
1990	Company entered into manufacturing of Telecom Towers & Masts
1981	Company incorporated and commenced manufacturing Hamilton Poles

Source: Company Data, Institutional Research

Business Segment

Skipper Ltd operates under the 3 verticals namely Engineering Products, Polymer Products and Infra Projects.

Engineering Products is the segment from which major revenue come from. It contributes around 88% to total income in FY16. It product range includes power transmission tower, distribution poles, monopoles, mild steel & high tensile angles, fasteners & tower accessories. Company has production capacity of 200,000 mtpa. Engineering products division not only caters to domestic market but also has access to export market. Company currently exports to 20 different countries.

Polymer Product is the upcoming segment for the company. It contributes nearly 10% to total income in FY16. Company has 5 manufacturing facilities pan India with cumulative production capacity stands at 41,000 mtpa. Company has an ambitious target to reach 100,000 mtpa by FY19 end. Polymer products range includes CPVC Pipes, UPVC Pipes, SWR Pipes & fittings.

Company has been undertaking Infra Projects as a part of forward integration activity. It contributes marginally i.e. 2% to total income in FY16. Management indicated that company normally targets EPC orders of high margin business only.

Skipper: Business Segments

	Engg Products	Polymer Products	Infra Projects
Capacity (MTPA):	**200,000**	**41,000**	
Product Range	• Power Transmission Tower • Power Distribution Poles • Monopoles • MS & High Tensile Angles • Fasteners • Tower Accessories • ERW Pipes	• UPVC Pipes • CPVC Pipes • SWR Pipes • Fittings	• Transmission Line EPC • Underground Utility laying by HDD • Water EPC
Highlights	• Ranks among the world's leading transmission tower manufacturer and Top 2 in India	• Strong Dealership Network • Aggressive Capacity expansion plan: to become a pan India player	• Recently forayed as part of forward integration activity. • Targeting high margin business

Source: Company Data, Institutional Research

Key Management Personnel

Skipper Ltd has experienced management with sound knowledge & which helps company to attain desire growth over the period of time.

Mr Sajan Kumar Bansal, Manging Director

Mr. Bansal is the driving force behind the company's exponential growth since the start of the new millennium. Under his visionary leadership, company has grown from a single unit, single product manufacturer into a multi-unit, multi-product manufacturing enterprise – ranging from steel to plastics

Mr. Sharan Bansal, Director

Mr. Sharan is a mechanical engineering by graduate. He is currently heading the tower manufacturing and EPC business of the company and has taken it to a leadership position in the industry.

Mr. Devesh Bansal, Director

Mr Devesh has done Masters in International Business. He is heading the tubes and tubular products divisions of the company. He is also responsible for the group's upstream expansions

Mr. Siddharth Bansal, Director

Mr Siddharth has a degree in Entrepreneurship from University of Illinois, US. He is heading the company's first diversification into non-steel products, he is responsible for the PVC pipe manufacturing divisions

Investment Rationale

Robust order book in Engineering Product business.

Skipper is the India's second largest manufacturer of transmission tower & also one of the world's leading tower producers. Transmission towers & poles contributes majorly to the Engineering product division. Company has steadily increased the production facilities in last few years & currently stands at 200,000mtpa. Morever, it is also going to increase the production capacity by 20,000-25,000mtpa in FY17. It is also India's top four pole manufacturing company & a pioneer in the production of Monopoles. For monopoles, company installed largest galvanizing plant with a capacity of 8,000 tonnes/per month. Monopoles are the only solutions for overhead lines in urban congestion. In engineering products business, the company is fast evolving from a national to an international player. Company has a strong execution track record of handling projects with the capacity of 400KV & above & which has high entry barriers like prequalification, quality & infrastructure related criteria. In domestic market, company is an approved supplier of transmission towers to Power Grid. Power Grid undertakes transmission of electric utility through inter- state transmission systems. It operates 90% of inter-state/inter-regional networks of India. Apart from Power Grid, company has also started receiving orders from state discom like UP, owing to government initiatives like UDAY schemes. While in export market; Skipper has signed an agreement with the leading TSO. Transmission System Operator (TSO) & its subsidiaries are a group of top international electric energy transmission companies in Latin America. Skipper was selected from among 20 players for this agreement based on its competitive advantage. TSO signed a strategic alliance agreement with Skipper in FY14 for the purchase of 100% of TSO current, forecasted & future tower requirement in Peru, Chile & Colombia from skipper until FY17end. Apart from this, company also supplies towers to other countries like South America, Europe, Middle East, Asia etc & currently entered into a new geographical region i.e. North Africa by way of contract in Egypt Market. Engineering product accounts for 88% of net sales in FY16. High voltage lines of (400kv & above accounts for 100% of company's revenue). Revenue from engineering product has grown 19% CAGR in last five years. Company's current order book stands at ₹2,429 crore which provides revenue visibility for next two fiscal i.e. FY17E & FY18E. Also, 90% of order book is dominated by tower manufacturing while less than 10% comes from T&D EPC segment. In last five years, order book has grown at a CAGR of 45%. Further, there are existing unopened bids of approximately ₹1,200 crore under submission for which results are awaited with domestic & exports constitute 50:50. Management is optimistic of getting substantial orders through these unopened bids. We believe, high growth momentum in power transmission sector coupled with robust order book & strong execution capability will continue to drive topline over FY16-FY18E by 19% CAGR.

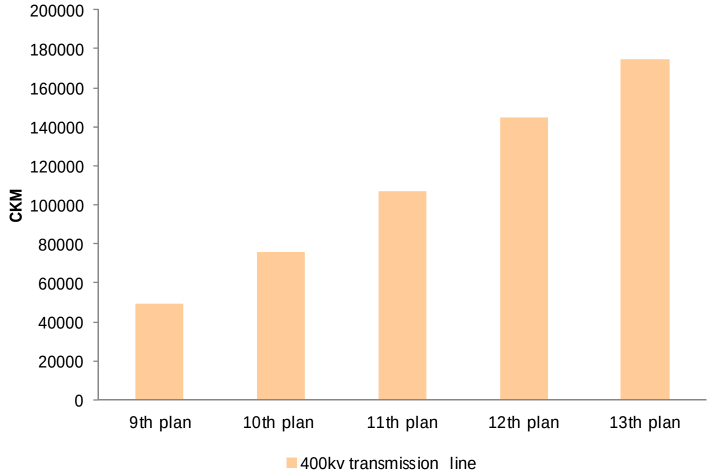
High Growth momentum in power transmission sector

India has invested heavily in power generation capacity in last many years, with total installed capacity currently stands at 302GW including renewable generation resources of about 42GW. However, the total power installed capacity by the end of 13th plan is expected to reach 469 GW including renewable. In spite of this, major reason for power deficit in India is shortage in transmission capacity. In last 5 years, there was only 30% increase in power transmission capacity v/s 50% increase in power generation capacity. In last five years, transmission capacity was added at a CAGR of 6-7%. While many regions were producing surplus power, there was inability to evacuate the excess power to deficit states due to shortage of transmission networks. Acknowledging the disproportion, government finally aimed to plug this gap by investing substantially in T&D space in order to match the investment in power generation capacity.

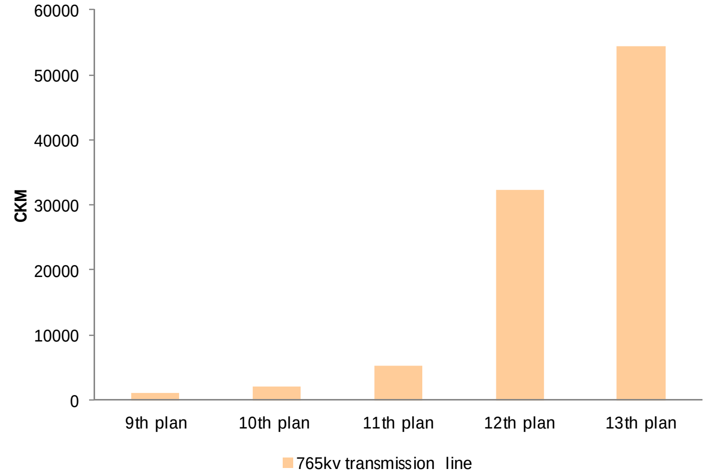
Government of India have allocated ₹1,80,000 cr to spend on transmission sector in 12th five year plan(FY12-FY17), up from ₹1,40,000cr spend on 11th five year plan(FY07-FY11). Government increasing focus on transmission sector has been reflected in total line capacity addition from 257,481ckm in 11th plan to 364,921 in 12th plan. The government has initiated an effort to move towards higher voltages and new technologies. Higher voltages lead to more efficient transfer of power while using lesser space. 54% of India's transmission line network is expected to be in 400 KV and above by the end of 12th Plan.

Below charts indicates, planning of robust transmission network addition across major segments in order to achieve grid stability.

Plans for 400kv transmission for 12th & 13th plan

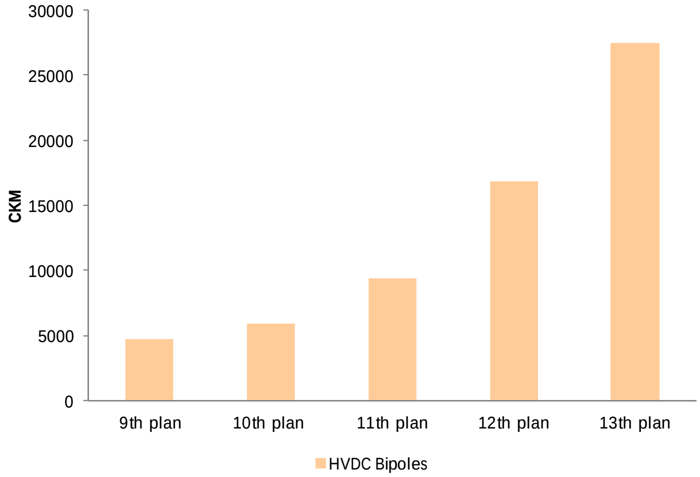


Plans for 765kv transmission for 12th & 13th plan



Source: Power Ministry, Institutional Research

Plans for HVDCkv transmission for 12th & 13th plan



Source: Power Ministry, Institutional Research

To meet the government target's of providing 24*7 power to all, NITI Aayog has set a target of adding 51,400 circuit km transmission line this fiscal, up 82% from what was achieved in 2015-16. Also, according to 20-year plan i.e. from 2014-2034, the total requirement for the 13th Five Year Plan (2017-2022) is 62,800 circuit kilometers (ckm) of transmission lines. This will require capex of ₹260,000 crore with around ₹160,000 crore allocated for 400 kV and above transmission. Power grid ltd to spend more than ₹With operational as well as financial situation improving for SEBs under Government initiatives of UDAY Schemes, states discom have also started undertaking capex for intra-state transmission. While Power Grid, with its strong execution track record will continue to get transmission projects from the government on a nomination basis, a lot of projects will also be bid on the tariff-based competitive bidding (TBCB) model thereby creating huge opportunities for private players such as Adani, Sterlite etc. Government is also encouraging Public Private Partnerships (PPP) in T&D Sector & projects are being awarded through competitive bidding processes on BOOT/BOOM model. Also, establishment of dedicated green energy transmission corridor to cater to the massive renewable power generation target of 175GW by 2022 will be a huge boost to transmission sector. Apart from above schemes, other schemes like rural electrification, increasing street light networks, improving public infrastructure such as stadiums, airports, bus terminus etc would also create demand for poles (transmission, street light, mono, high mast).

Also, sizeable projects currently under bidding are:

- ₹10000cr transmission investments in India's northeast under the NERPSIP programme
- 40000cr Plus Green Corridor Projects (Lines being built in Western region catering to Renewable power sources)
- 25000cr 800 KV HVDC Raigarh Pugalur Transmission project

Also globally, outlook for power transmission sector looks bright because of rising energy demand in developed as well developing countries. The global power transmission & distribution sector has grown in double digit in last few years because of strong growth in Asia, Middle East & Africa regions. The sector, globally, is expected to attract investment of $1trn over next 5-6 years. This growth would mainly be powered by Asia, followed by America, Middle East & Africa

Backward Integration & strategic plant location will continue to support better margins for engineering product division

Skipper Ltd has three state of the art manufacturing plants in Eastern India, two at Jangalpur & one at Uluberia, all near Kolkata, West Bengal. Company currently has total installed capacity of 200,000 mtpa. It is also one of the world's largest integrated transmission tower manufacturing companies with angle rolling, tower accessories & fastener manufacturing & EPC line construction. Company currently operates efficiently at 90% capacity. Skipper tower manufacturing capacity is backward integrated with 215,000 mtpa hot rolling mill that manufactures angle, which is the main raw material for the transmission towers & company has recently increased the rolling mill capacity from 180,000 mtpa to 215,000 mtpa. This has resulted into a further incremental capacity of 100,000mtpa for final engineering product business Also, manufacturing facilities for tower accessories like hangers & for fasteners like Nuts & Bolts together supports the backward integration process. This enables company to have complete control over the value chain from angles to tower production to fastener to EPC with a high degree of performance. This also means that over 80% of cost on any tower projects is under control. Further, manufacturing process of almost 75% of products uses automated CNC lines, imported from leading global machine suppliers which ensures high quality work. Morever, these three plants of company are located in close proximity to the source of raw materials i.e. steels billets & blooms – which it mainly procures from Durgapur steel plants. Owing to its location advantage, company enjoys lowest cost for logistics as compared to its peers. In last five years, operating margin in engineering product division has improved from 8% in FY12 to 15.6% in FY16, owing to strategic plant location, vertically integrated operation & exiting low margin ERW steel tubes business in 2014. We believe cost saving of 3-4% will continue to support superior operating margin for engineering product segment going ahead.

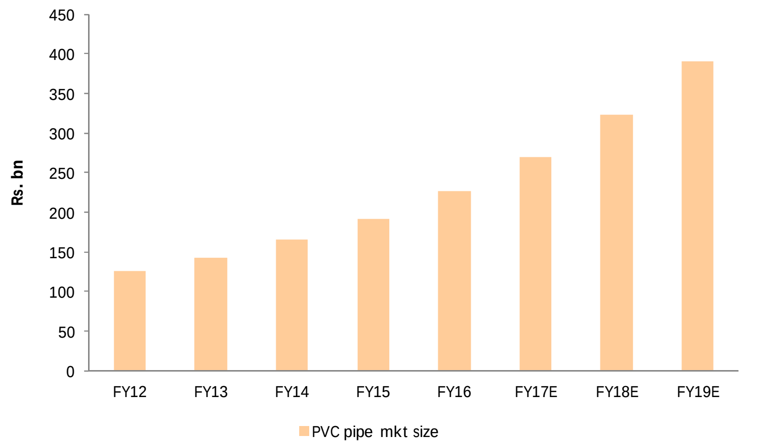
Capacity expansion in polymer product business to boost future growth

In last few years, skipper has diversified its business into polymer product segment. Despite being a relatively new entrant, Skipper was successful in capturing 10% of Eastern India's market since it diversified into water transmission business. Company currently enjoys market leadership in West Bengal and Bihar, with growing prominence in other areas like Jharkhand, Orissa & other north eastern states. Looking at the success & demand, company has firm up the plans to be a pan-India player & they have set up the manufacturing facilities across India. The company currently has a capacity of 41,000 mtpa across five different regions of India. Recently, company has commissioned its Hyderabad plant of 6000 mtpa capacity, which enables them to participate in projects being bid for by the newly formed state of Telangana. Company is planning to expand capacity by further 10,000-15,000 mtpa in FY17. Company has wide network of more than 1000 channel partners across pan India to sell PVC pipes & fittings. It has also collaborated with global giants with Sekisui of Japan for CPVC compounds & with Wavin Group of Netherland for advanced plumbing solutions. We believe, this collaboration will aid to product premiumization strategy & help open up new customers segments & geographies. Management has been prudent in undertaking pvc pipe expansion under asset light approach. This means company by land on lease basis & thus helps in saving cost for land acquisition & also time delays for the same. This asset light model gives competitive advantage to add capacity at the cost of ₹8,000 per MT as compared to industry average of ₹20,000 per MT. Company currently incur ₹40-50cr annually to increase the capacity. Currently, PVC pipes contribute 10% of total sales in FY16 & this is up from 6.8% revenue contributed in FY15. It expects to expand its PVC pipe capacity to 100,000t by FY19E & expects potential revenue of ₹800-1000cr in next few years at optimum capacity. Management indicated that revenue contribution from PVC pipe to increase from current 10% of total revenue to atleast 25% by FY19E.

PVC Pipe Industry in India

PVC pipes & fittings market in India has grown at CAGR of 12.5% during FY09-FY14. PVC Pipes & fittings industry is segmented into rigid PVC, UPVC & CPVC pipes & fittings. As we can seen from below charts, market size of PVC pipe industry stands at ₹22,500cr as on FY16 & it is expected to touch ₹39,100cr by FY19E, which is projected to grow at 15% CAGR during this period. India's PVC pipe domestic demand is pegged at 1.7mn MT & it is expected to touch 3.3mn MT by FY19E. Since replacement of metal by plastic has been taking place rapidly, plastic industry is expected to grow at an accelerated pace in the coming year. 60% of the industry is under organized players. The industry is dominated by top 4- players controlling 75% of organized market. Due to increased distribution reach and the consistent quality of their products, organised players have been gaining market share from the unorganised sector.

PVC Pipes Industry



Source: Company Data, Institutional Research

Irrigation is the critical input for increasing agriculture production & productivity. Agriculture is the major segment for PVC pipes demand in domestic market, comprising of around 70% of total consumption. Out of 141 million hectares of net cultivatable area of land in the country, only 46% is covered with irrigation facilities.In order to bring more hectares under irrigation, government has initiated many new projects & investment for the same. The use of pipes for irrigation is expected to gain momentum, as government in recent budget has announced to bring 28.5lakh hectare land under irrigation through "Pradhan Mantri Krishi Sinchai Yojana" & also increased the allocation under the same by 10% to ₹5800cr. Government to also fast track 89 irrigation projects under AIBP worth ₹86500cr & ensures that 23 of these projects will be completed by FY17e. The plastic piping industry has also witnessed strong demand growth due to the increasing construction activity in the country especially in the tier II and tier III cities. Data suggest that more than 50% urban population has not access to piped water. Water utilities do not cover almost 25% of Indian population. Hence, like power transmission, government has also announced massive investment plans in water transmission & distribution space. The Government's thrust on water supply, irrigation, river management, along with improving sanitation, sewerage and urbanisation is expected to drive the PVC pipes and fittings markets. Beside Housing for all will create huge demand for for plumbing, sewerage, rain water etc. Government has announced large projects, such as the National Rural Drinking Water programme, Swachh Bharat and river interlinking & to spend ₹105,000cr for building next generation infrastructure like smart cities & urban transformation which will give a boost to pvc pipe demand going ahead.

Strong operational & financial performance to sustain

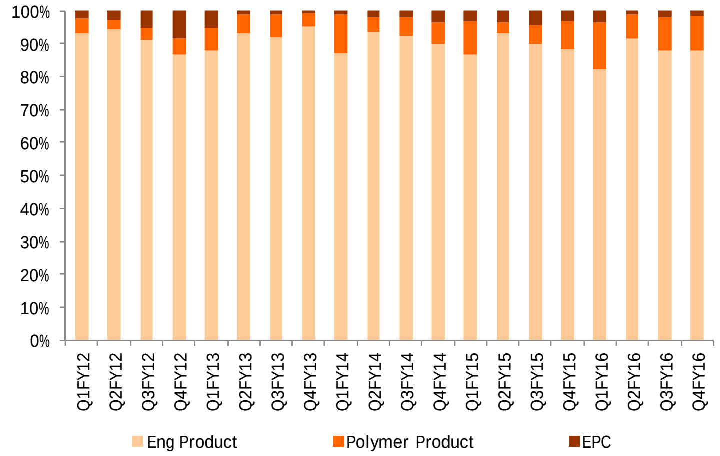
Over last five year, skipper net revenue has grown 19% CAGR between FY12-FY16. Backward integration in engineering business has led to substantial cost advantage, which resulted into superior operating margin as compared to its competitive peers. Due to competitive advantage & exiting low margin ERW steel tubes business, EBITDA margin has improved by 550bps i.e. from 8.3% in FY12 to 13.8% in FY16. Due to prudent strategy of expanding business under asset light model, this has resulted into tight control over leverage ratio. Leverage ratio has in fact improved from 1.9x in FY12 to FY1.2x in FY16. Better control over leverage ratio has further restricted growth in finance cost in last few years. Improvement in operating margins & tighter control over finance cost has led to 57% CAGR growth in profitability in last five years. During FY16, company's external credit rating was upgraded by CARE from A- to A +on account of improved operational & financial performance. We believe, company to grow its revenue & profitability by 24% & 28% CAGR respectively over FY16-FY18E, owing to robust order book in engineering segment & continuation of strong momentum in polymer product business led by aggressive expansion.

Segment Overview

Revenue Contribution

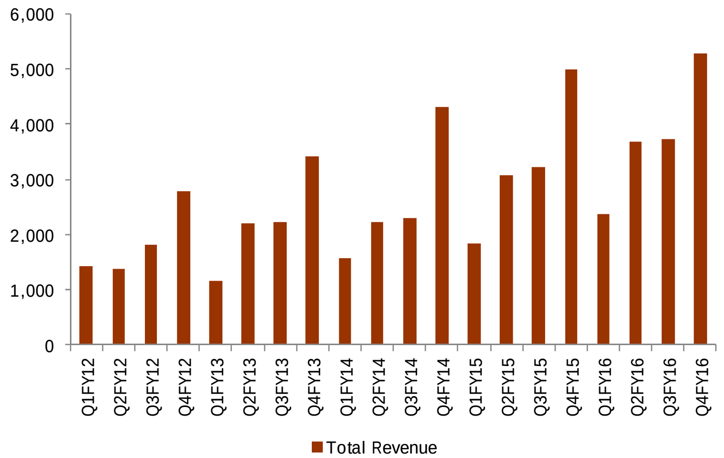
As we can see from the below charts, company's revenue has been on uptrend. Company receives maximum revenue from engineering product business. However, in last few years, company has diversified into polymer product segment also. Since then, polymer product business has also started contributing to overall revenue owing to increasing capacity. In last five years, revenue contribution from polymer product has increased from 4.1% in FY12 to 10% in FY16. We believe, aggressive expansion in polymer product business to increase revenue contribution further going ahead. Management expects revenue from polymers to increase from current 10% to 25% in next few years. However, revenue from EPC business to remain minimal going ahead, as company is not interested to expand this business aggressively.

Revenue by segment



Source: Company data, Institutional Research

Total Revenue

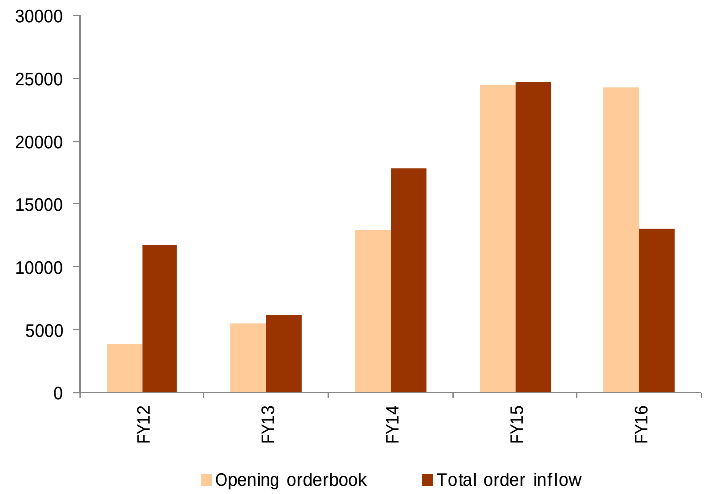


Source: Company data, Institutional Research

Order book Flow

As seen from the below charts, company have received substantial orders inflow in last few years. This order book is well diversified between domestic as well as export markets. Company currently has outstanding order book of worth ₹2429 crore which provides revenue visibility for next two years & also there are existing unopened bids of approximately ₹1,200 crore under submission for which results are awaited. Management is optimistic of getting substantial orders through these unopened bids. Such growth in order flow has been primarily led by strong execution capabilities, steady increase in production capacity & robust integrated operation. We believe, company will continue to enjoy healthy order-book position in coming years owing to strong prospect in domestic as well as international power transmission sector.

Order book



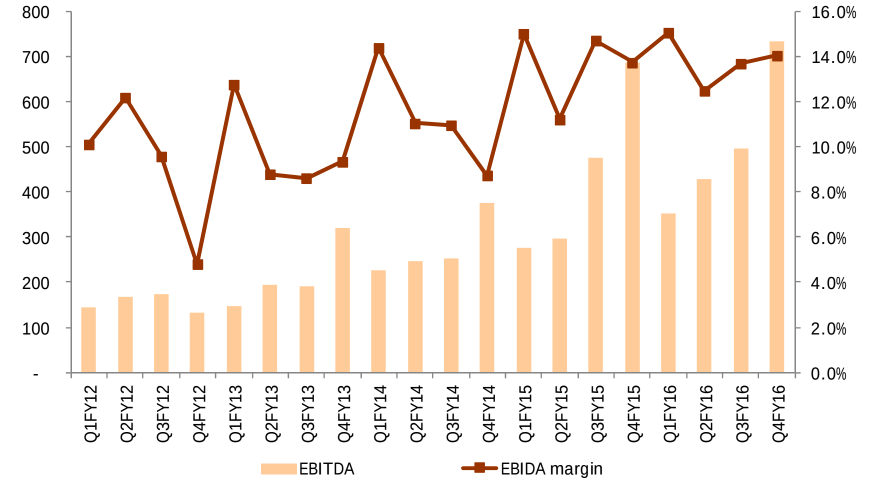
Source: Company data, Institutional Research

Financial Overview

EBITDA Margins

Blended EBITDA margins of the company has been on a uptrend since last five years on an annually basis. In last five years i.e. from FY12, EBITDA margin have improved by 550bps i.e. from 8.3% in FY12 to 13.8% in FY16. This was primarily due to integrated operation of the company & exiting low margin steel tubes business. However, blended EBITDA margins in last few quarters remain in a range of 13%-14%, as contribution from lower margin polymer products has gone up. We believe, blended EBITDA margin to remain stable at 14% for next couple of years, as company currently under expansion mode in PVC as well engineering product business.

EBITDA margin Growth

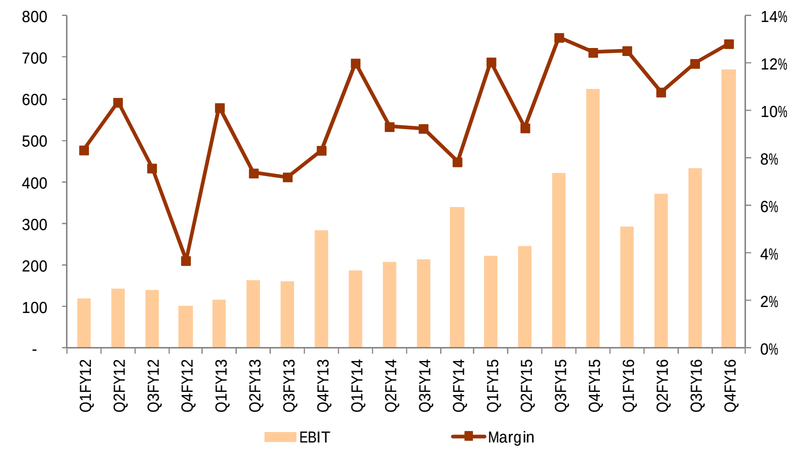


Source: Company data, Institutional Research

EBIT margins

EBIT margins (operating margins) have also shown steady uptrend in last five years as shown in the graph below. This was primarily due to improvement in engineering product division, a major contributor to overall revenue. In last five years i.e. from FY12 to FY16, engineering product division has shown a 760bps improvement in operating margin i.e. from 8% in FY12 to 15.6% in FY16 & this was led by handling projects of higher capacity. We believe, company to maintain its current operating margin going ahead due to lower competition & strong execution capabilities on handling higher capacity projects.

EBIT margin Growth

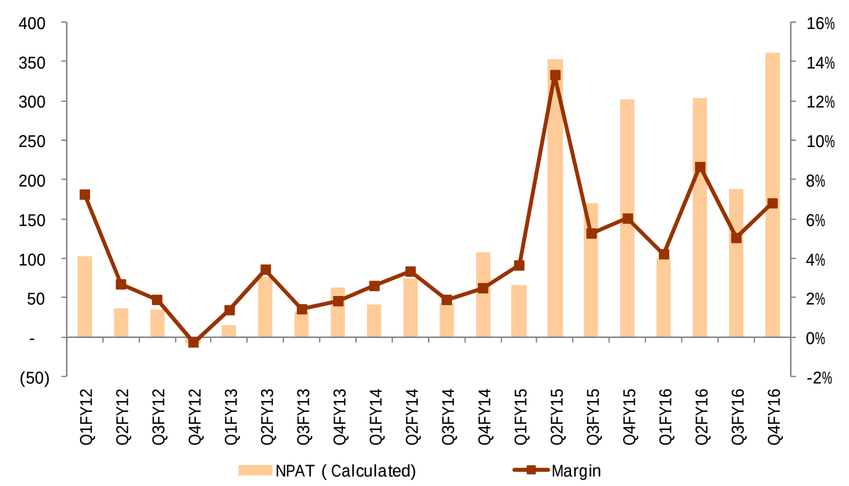


Source: Company data, Institutional Research

PAT Margins

PAT margins have also shown a steady uptrend due to better operating margins. During FY16, rating agency CARE also revised the company's long term bank facilities from A- to A+, which will lower finance cost going ahead. However, profit margin to improve steadily going ahead, as rationalization in tax rate & lower finance cost to support net profit margins.

NPAT margin growth

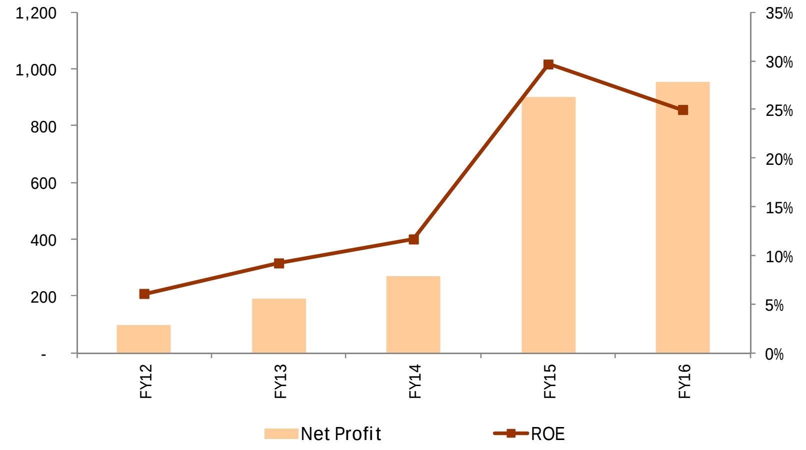


Source: Company data, Institutional Research

Return ratios - ROE

Return on equity has improved substantially in last five years. ROE in FY12 was 6.1%. With improvement in business profitability, ROE in FY15 was 29.7%. However, ROE decline to 25% in FY16. This was largely due to fall in profitability growth on YoY basis. In FY16, income from forward contract was substantially lower as compared to FY15. This resulted into lower single digit growth in profit before tax as compared to average growth registered in previous few years. We believe, ROE to remain at current level for next couple of years as company to incur capital expenditure for increasing the capacity.

ROE (Return on Equity)

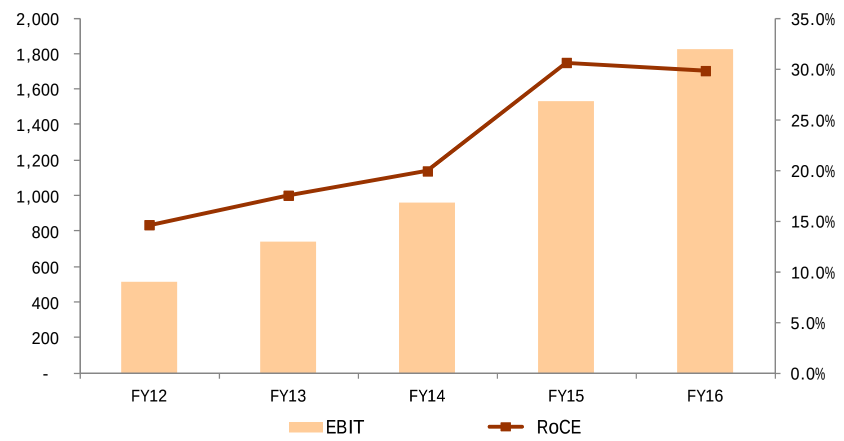


Source: Company data, Institutional Research

Return ratios - ROCE

As we can see in the chart below, return on the capital employed of Skipper Ltd has been on uptrend since FY12. Below chart indicates that company in last five year has efficiently invested capital for business growth. Also, company has improved its leveraged ratio from 1.9times in FY12 to 1.2times in FY16. We believe, company to improve its ROCE in coming years, as undergoing capex by the company to benefit from incremental revenue going ahead.

ROCE (Return on Capital Employed)

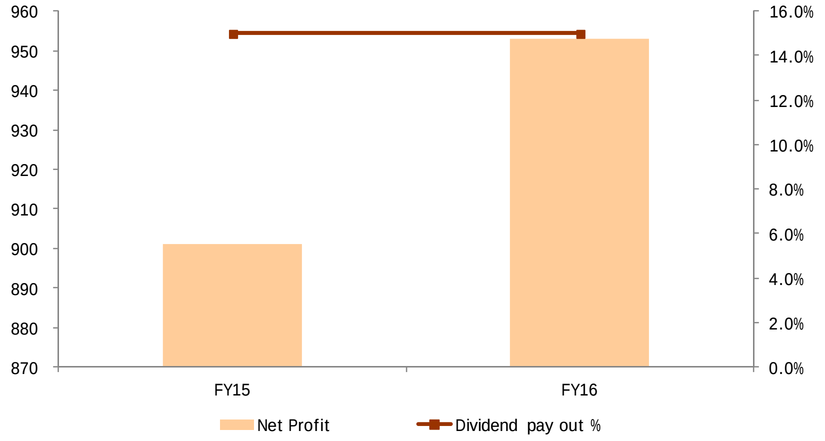


Source: Company data, Institutional Research

Dividend Payout Ratio

Skipper ltd has stable payout ratio. The company has maintained the policy of paying dividend nearly about 15% in case of having capital expenditure. We believe that in the upcoming period the company will maintain the historical dividend payout ratio. Rise in the bottom line in absolute terms makes dividend payment to be attractive.

Dividend to Payout ratio



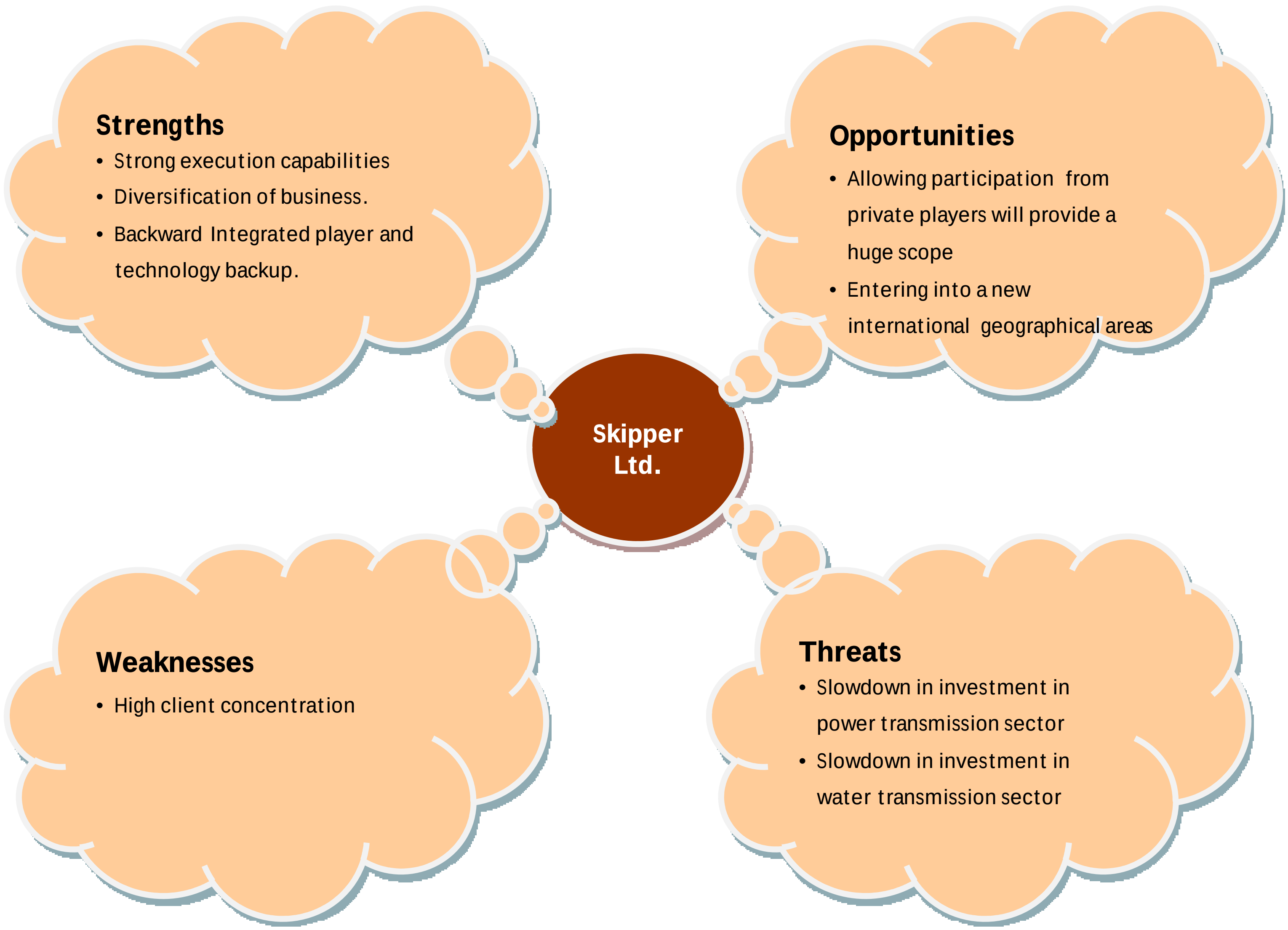
Source: Company data, Institutional Research

Key Risks

Investment Risk :

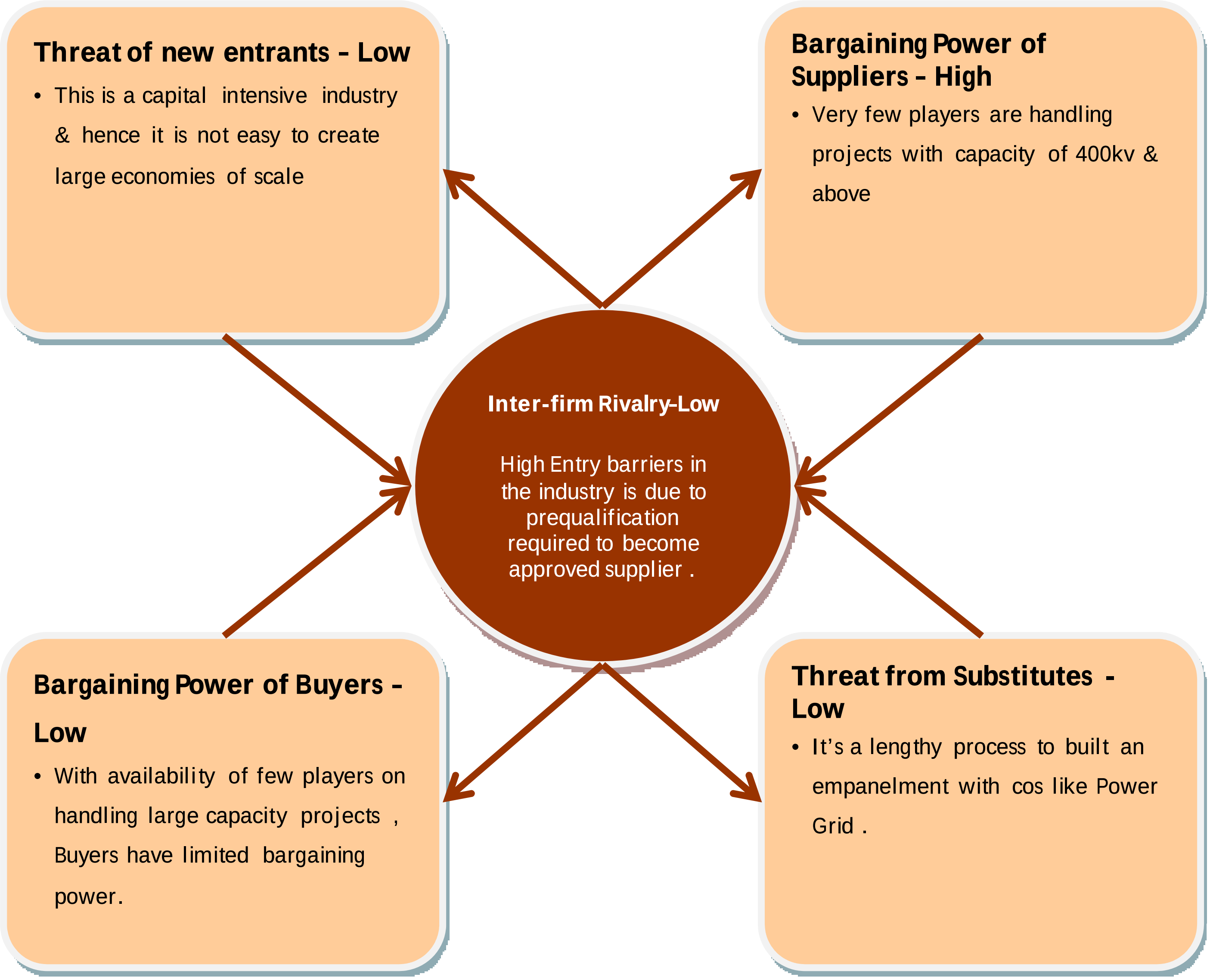
- Slowdown in investment by government in power as well as water transmission business may provide a key risk to business in terms of lower order inflow & future earnings growth
- Delay in project execution may hamper company's strong execution capability image & future order flow
- Aggressive bidding by the competitors may negatively impact future revenue & margin competitiveness
- Under utilization of capacity may also impact operating margin negatively

SWOT Analysis



Source: Company data, Institutional Research

Michael Porter's Five Force Analysis

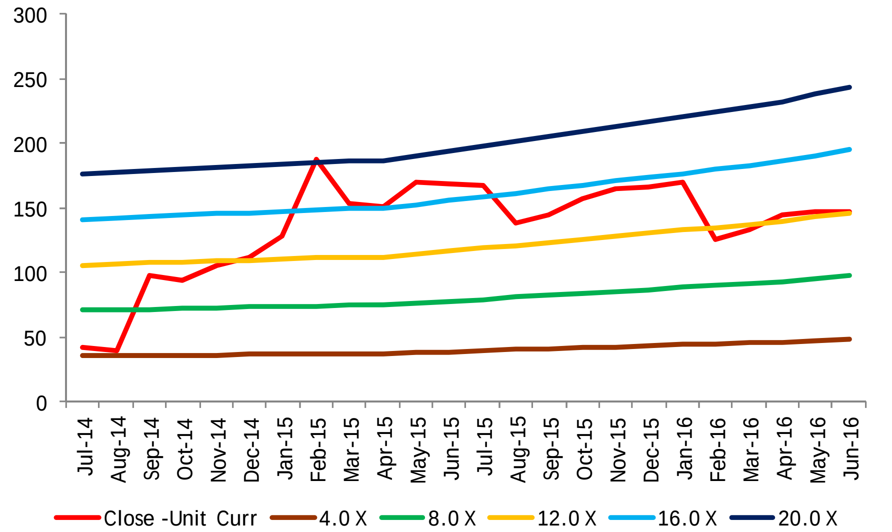


Source: Company data, Institutional Research

Valuation & Outlook

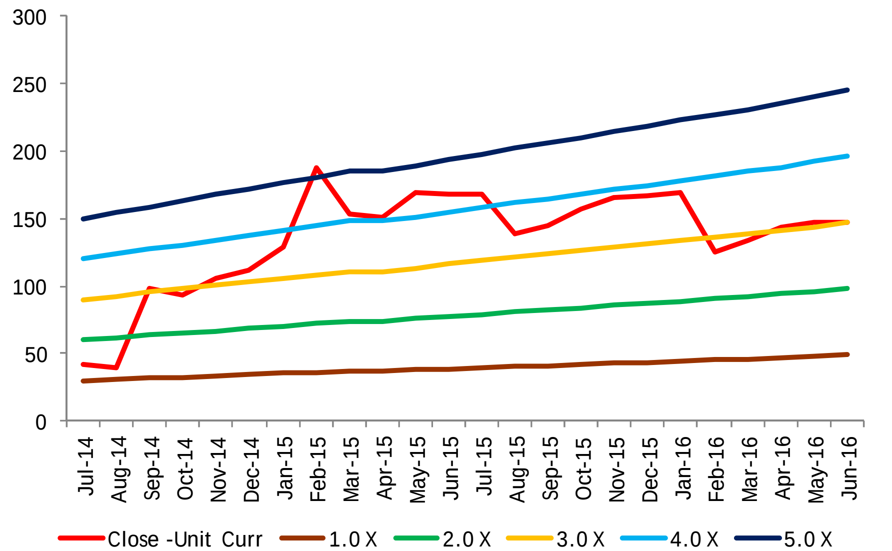
At CMP ₹153, company trades at 16x & 10x its FY16 EPS & FY18E EPS of ₹9.3 and ₹15.2 respectively. With robust order book in engineering product division coupled with continuation of strong growth momentum in polymer product business, we believe, company is firmly place on a high growth trajectory over next two years. Hence, we initiate coverage on Skipper with a **BUY** rating and attach a multiple of 13.5x to Skipper FY18E (EPS) of ₹15.2 to arrive at the target price of ₹205, indicating a potential upside of 34% from current level.

1 year forward P/E Chart



Source: Capitaline, Institutional Research

1 year forward P/ BV Chart



Source: Capitaline, Institutional Research

Income Statement

Y/E Mar (₹mn)	FY14A	FY15A	FY16A	FY17E	FY18E
Net revenues	10,404	12,708	14,881	18,900	23,008
Total Expenses	9,312	10,975	12,869	16,270	19,812
EBITDA	**1,092**	**1,733**	**2,012**	**2,629**	**3,196**
EBITDA Margin (%)	*10.5%*	*13.6%*	*13.8%*	*14.0%*	*14.0%*
Depreciation	151	219	241	267	295
Other Income	21	17	52	50	50
Interest (Net)	605	582	570	582	602
Income from forward contract	11	426	181	-	-
PBT	**368**	**1,375**	**1,434**	**1,831**	**2,349**
PBT Margin (%)	*4%*	*11%*	*10%*	*10%*	*10%*
Tax	98	474	481	623	799
Reported PAT	**270**	**901**	**953**	**1,209**	**1,551**

Balance Sheet

Y/E Mar (₹mn)	FY14A	FY15A	FY16A	FY17E	FY18E
Equity capital	102	102	102	102	102
Reserves & Surplus	2209	2936	3713	4704	5976
Net worth	**2311**	**3038**	**3815**	**4806**	**6078**
Total debt	2,535	1,972	2,311	2,582	2,672
Total Liabilities & Equity	**4,846**	**5,010**	**6,126**	**7,388**	**8,749**
Short term borrowings	1755	1724	2420	2,704	2,798
Creditors	1563	2415	2124	2,459	2,890
Other current liabilities	626	1277	1039	1,314	1,600
Provisions	25	210	193	381	618
Current Liab. & Prov.	**8,815**	**10,636**	**11,902**	**14,246**	**16,655**
Net block	3469	3548	4252	4752	5252
Other Non Current Assets	20	31	22	22	22
Total Non-Current Assets	**3,489**	**3,579**	**4,274**	**4,774**	**5,274**
Inventories	2290	2282	2500	2997	3349
Debtors	2318	3758	3724	4667	5681
Cash & bank	263	560	497	657	948
Loans & advances	455	457	907	1152	1402
Total Current Assets	**5,326**	**7,057**	**7,628**	**9,472**	**11,381**
Total Assets	**8,815**	**10,636**	**11,902**	**14,246**	**16,655**

Key Ratio

Y/E Mar (₹mn)	FY14A	FY15A	FY16A	FY17E	FY18E
Per Share Ratios					
Fully diluted E P S	2.6	8.8	9.3	11.8	15.2
Book Value	23	30	37	47	60
Dividend per share	-	1.3	1.4	1.8	2.3
Valuation Ratio					
P/E	14.0	17	14	13	10
P/BV	1.6	5.1	3.6	3.3	2.6
EV/EBITDA	7.2	10	8	7	5
EV/Sales	0.8	1.3	1.0	0.9	0.8
Growth Ratios					
Sales Growth	16%	22%	17%	27%	22%
EBITDA Growth	28%	59%	16%	31%	22%
Net Profit Growth	42%	234%	6%	27%	28%
Common size Ratios					
EBITDA Margin	10.5%	13.6%	13.8%	14.0%	14.0%
EBIT margin	9.0%	11.9%	11.9%	12.8%	12.8%
PAT margin	2.6%	7.1%	6.4%	6.4%	6.7%
Return ratios					
RoNW	11.7%	29.7%	25.0%	25.1%	25.5%
RoCE	19.9%	30.6%	29.8%	32.7%	33.3%
Turnover ratios (days)					
Debtors (Days)	81	108	91	90	90
Creditors (Days)	90	76	53	65	65
Inventory (Days)	90	76	71	75	75
Solvency Ratios					
Total Debt/Equity	1.1	0.6	0.6	0.5	0.4
Interest Coverage Ratio	1.6	2.6	3.2	4.1	4.9

Cash Flow

Y/E Mar (₹mn)	FY14A	FY15A	FY16A	FY17E	FY18E
PBT	368	1,375	1,434	1,831	2,349
Tax Paid	98	474	481	623	799
Dep & amortization	151	219	241	267	295
Working capital changes	285	(223)	484	603	570
Net Cash flow from Operation	**136**	**1343**	**710**	**873**	**1,276**
Capital expenditure	322	298	945	767	795
Sale/purchase of investments	11	11	(9)	0	0
CF from Investing	**333**	**309**	**936**	**767**	**795**
Issue of shares & sh. premium	(20)	(174)	(176)	(218)	(279)
Debt change	352	(563)	339	271	89
CF from Financing acti.	**332**	(737)	163	**54**	**(190)**
Net changes in cash	**135**	**297**	(63)	160	291

Source: Company data, Institutional Research

NOTES

Recommandation Rationale

Recommendation	Expected Absolute Return (%) over 12 months
BUY	>15%
ACCUMULATE	<10% and >15%
NEUTRAL	<-10% and <10%
REDUCE	>-10% and <-20%
SELL	>-10

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for stock and our recommendation.

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