India Equity Research | Engineering & Capital Goods
October 23, 2017
Initiating Coverage

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Skipper

Refer to important disclosures at the end of this report

Growth shifting into higher gear

CMP	Target Price
Rs 214 as of (October 16, 2017)	Rs 282 12 months
Rating	Upside
BUY	31.9 %

Skipper Ltd (Skipper) is India's largest and among the top ten manufacturers of Transmission Towers in the world. The company is also one of the lowest cost producers of transmission towers – benefiting from high economies of scale, fully integrated operations *(from billet rolling to manufacture of angles)* and close proximity to raw material sources. Skipper has recently entered the Polymer Pipes business. While the company is a significant player in Eastern India, it is striving for a pan-India presence and is aiming to be among the Top 5 Polymer Pipe companies in India over the next 3-4 years. We expect the Transmission Tower business to report steady revenue growth of 13% CAGR over FY2017-20E, while the Polymer Pipe segment is set for an upward growth trajectory of 44% CAGR, propelling Skipper into its next phase of growth. Going forward, Skipper's revenue and PAT are expected to increase at a CAGR of ~19% and ~ 22%, respectively over FY17-20E. We initiate coverage on Skipper with a BUY rating and SoTP based target price of Rs282.

Stable outlook in Engineering Products: While India's Power sector has seen remarkable accretion in generation capacities in the last few years, investment in T&D networks is now gaining pace. India is expected to spend ~Rs2.6tn in augmenting its T&D networks over the next 5 years – during which the total opportunity for Transmission Tower players would be ~Rs1.4tn. Given the strong pipeline of orders from PGCIL (~Rs200bn p.a.), SEBs (~Rs200bn p.a.), large TBCB players and the huge opportunity in overseas markets, we expect the demand for Transmission Towers to grow at a steady pace for the next 4-5 years. Being the largest manufacturer of Transmission Towers, Skipper is well placed to capture the opportunity as it supplies Transmission Towers to the utilities as well as to the EPC contractors, which do not have in-house manufacturing facilities for T&D structures.

Polymer Products poised for strong growth: The domestic Polymer Pipe industry is ~2mn MTPA, valued at ~Rs250bn and is expected to grow at ~12-15% p.a. over the next 5 years, largely driven by demand from Irrigation and Housing sectors. Over the last 3 years, Skipper has expanded capacities in Polymer Pipes by 5x to 51,000MTPA across 5 major locations – a big leap forward to achieve its pan-India ambition. The technological tie-up with Sekisui of Japan for CPVC compounds is also expected to help the company to achieve premium brand positioning and product differentiation. Skipper is confident of tripling its Polymer Pipe turnover to Rs6bn in the next 3 years, led by expanding distribution network, increasing focus on branding, marketing and sales promotion.

Valuation and recommendation: We value Skipper on SoTP basis, assigning different P/E multiples to value each business segments. We initiate coverage with a BUY rating and a target price of Rs282.

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	15,062	17,030	19,534	23,484	28,533
EBITDA	2,192	2,460	2,664	3,132	3,817
EBITDA Margin (%)	14.6	14.4	13.6	13.3	13.4
APAT	951	1,115	1,231	1,538	2,023
EPS (Rs)	9.3	10.9	12.0	15.0	19.8
EPS (% chg)	6.7	17.3	10.4	24.9	31.6
ROE (%)	27.7	25.5	22.2	22.2	23.3
P/E (x)	23.0	19.6	17.8	14.2	10.8
EV/EBITDA (x)	11.8	10.5	9.7	8.2	6.6
P/BV (x)	5.7	4.4	3.6	2.9	2.3

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NOT RATED

Emkay vs Consensus

EPS Estimates	FY18E	FY19E
Emkay	12.0	15.0
Consensus	-	-
Mean Consensus TP (12M)		Rs 247

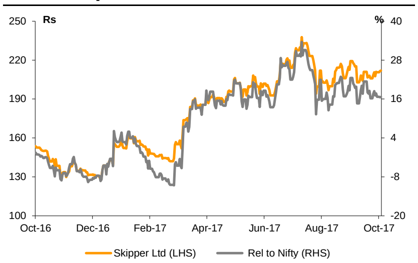
Stock Details	
Bloomberg Code	SKIPPER IN
Face Value (Rs)	1
Shares outstanding (mn)	102
52 Week H/L	240 / 125
M Cap (Rs bn/USD bn)	22 / 0.34
Daily Avg Volume (nos.)	1,47,169
Daily Avg Turnover (US$ mn)	0.5

Shareholding Pattern Jun '17	
Promoters	70.4%
FIIs	2.0%
DIIs	11.0%
Public and Others	16.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(1)	14	38
Rel. to Nifty	(2)	(4)	2	19

Relative price chart



Source: Bloomberg

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Investment Rationale

Disciplined and steady growth –Market leader with persistent high growth potential

Skipper's conservative strategy of sweating the assets to the fullest, pursuing maximum capacity utilisation (~85-90%) in its Transmission Tower manufacturing facilities, and subsequently following it up with capacity additions (15-20% growth in capacities) in a disciplined manner has enabled it to seize business opportunities without affecting the cash flows or straining the balance sheet or comprising on profit margins. This strategy has enabled Skipper to grow consistently over the past 5-6 years and emerge as the largest domestic manufacturer and supplier of T&D structures. Despite expanding capacities by 15-20% every year, the company has consistently achieved capacity utilisation in excess of 85%, aided by steady growth in domestic as well as overseas T&D markets.

Over the past 4 years, Skipper has gradually increased the Transmission Tower manufacturing capacities 2.3x from 100,000MTPA in FY13 to 230,000MTPA in FY17 - spread across 4 locations (3 in Kolkata, West Bengal and 1 in Guwahati, Assam). The company is now amongst the top ten global suppliers of T&D structures and offers the full range of T&D structures from 66kV to 800kV across various sub-segments like towers, tubular poles, monopoles etc. Going forward, we expect Skipper to continuously expand capacities at regular intervals, led by stable growth outlook in domestic T&D capex and steady inroads made into the global T&D market, which is likely to reach size of ~US$8tn over FY16-40.

Exhibit 1: Engineering products – Capacity additions and utilizations

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Capacities (mtpa)	1,00,000	1,00,000	1,30,000	1,50,000	1,75,000	2,30,000	2,53,000	2,78,300	3,06,130
Growth (%)	*-*	*0%*	*30%*	*15%*	*17%*	*31%*	*10%*	*10%*	*10%*
Utilisation (%)	*66%*	*72%*	*79%*	*91%*	*90%*	*87%*	*85%*	*88%*	*90%*
Revenues	6,708	8,350	9,554	11,768	13,260	14,237	16,129	18,368	20,664
Growth (%)	*41%*	*24%*	*14%*	*23%*	*13%*	*7%*	*13%*	*14%*	*13%*

Source: Company, Emkay Research

Multiple competitive advantages sustaining superior performance

While many firms strive for a competitive advantage, only few manage to accomplish and sustain it. Although Skipper has the benefit of being located near to RM sources, the company has over time created multiple competitive advantages, which would be challenging for competitors to replicate in the near future. With ~230,000MTPA of tower manufacturing capacities located in a single region, Skipper has enough volume to offer to RM suppliers – enabling the company to source billets at lower cost. Similarly, the integrated operations at its Kolkata plant enables Skipper to capture ~80% of the value addition - from billet rolling to manufacture of angles - that form the core of Transmission Tower manufacturing. The capability to offer larger volume to RM suppliers, coupled with fully integrated operations allow Skipper to have 200-300bps margin advantage over its nearest competitors.

Moreover, Skipper is the only domestic company having 8 galvanizing plants with capacities of over 230,000MTPA – including one of India's largest galvanizing plant (14-metre-long) with capacity of 8,000 tonne / month, enabling towers & monopoles of the highest sizes to be galvanized in a single dip. The high cost of setting up galvanising units is a major entry barrier for new entrants. It is also pertinent to note that Skipper's tower manufacturing facilities are strategically located close to SAIL's Durgapur plant (less than 150kms distance), which lowers the transportation cost by ~Rs500 per tonne v/s the industry standard of ~Rs2,000 per tonne.

Exhibit 2: Engineering products – Operating margins & RoCE

Rs in mn	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues	4,763	6,708	8,350	9,554	11,768	13,260	14,237	16,129	18,368	20,664
Growth (%)	*-*	*41*	*24*	*14*	*23*	*13*	*7*	*13*	*14*	*13*
EBIT	472	532	606	904	1,809	1,937	2,083	2,177	2,388	2,686
EBITM (%)	*10*	*8*	*7*	*9*	*15*	*15*	*15*	*14*	*13*	*13*
ROCE (%)	*11*	*13*	*11*	*15*	*31*	*29*	*31*	*29*	*28*	*28*

Source: Emkay Research, Company

Healthy order book ensuring stable revenue visibility

Skipper's order backlog of Rs26bn *(~1.75x FY17 Engineering and Infrastructure revenues)* is relatively well-balanced between Domestic (PGCIL–51%, SEBs & others–22%) and International segments (27%). Till around 3-4 years back, Skipper's order backlog was largely dominated by PGCIL (~90%). Though order flows from PGCIL are stabilizing at ~Rs200bn p.a., the SEBs and TBCB players are placing orders worth ~Rs200-250bn p.a. Recently, states like Rajasthan, UP, Uttarakhand, MP, Telangana, Andhra Pradesh etc. have been more active in placing orders. The bidding pipeline remains strong at ~Rs14bn across PGCIL, SEBs and TBCB projects and Renewable projects. Post the recent successful commissioning of 2 landmark EPC projects (including the 400kV D/C Rapp-Kota transmission line for PGCIL and 400kV D/C Quad Bhadla-Bikaner transmission line for RRVPN), Skipper becomes eligible to bid for new EPC projects on its own without the necessity of forming a JV or bidding along with a consortium partner.

Pan-India ambition taking wings in Polymer Products business

After having set up its first tube mill in FY03, Skipper's entry into Polymer Pipes in FY09 was the logical next step towards product line extension. As on date, the company has discontinued dealing in galvanised ERW pipes and is entirely focused on the manufacture, branding and supply of Polymer Pipes & Fittings. At present, Skipper is the largest manufacturer of PVC pipes in West Bengal and has one of the largest Polymer Pipe manufacturing facilities in Eastern India. After establishing its presence in Eastern India with ~10% market share, the company has rapidly expanded capacities by 5x from 10,000MTPA in FY2014 to 51,000MTPA across 5 locations *(West Bengal, Assam, UP, Gujarat and Telangana),* enabling Skipper to have a pan-India presence. Similarly, the marketing & distribution touch points have been augmented from 1,500 channel partners to over 3,500 channel partners and the company is now targeting to be among the top five domestic Polymer Pipe manufacturers.

Going forward, Skipper's focus would be to increase utilisation at it new Polymer Pipe facilities over the next couple of years. The company is planning to: (1) augment the distribution channels, (2) increase the dealer network and incentivize dealers with higher commission, and (3) offer better credit terms to push sales. In addition to spending on marketing & brand building, the company is also engaging directly with architects, plumbers and farmers to indoctrinate them with Skipper's Polymer Pipes portfolio. Bulk of the existing revenue in the Polymer Products segment is attributable to low margin Agricultural Pipes (~75%) while the balance is derived from Plumbing & Sewage. Skipper's endeavour is to increase the revenue share from Plumbing & Sewage Pipes to ~40% over the next 2-3 years. Also, the share of value-added products (VAP), like Fittings and CPVC products is also expected to more than double over the next 2-3 years. Going forward, as the proportion of revenue from Plumbing & Sewage, Fittings and CPVC products increase, the blended margins in the Polymer Products segment will likely improve by 250-300bps.

Skipper's next phase of revenue and profitability growth is intricately linked to the performance of the Polymer Products segment. The company is also planning to double the Polymer Pipe capacity to 100,000MTPA over the next 4-5 years. It is pertinent to note that the Polymer Products segment has grown at a phenomenal pace during the last 7 years and has almost doubled its turnover every two years from FY11 onwards. Going forward, we expect the Polymer Products revenue and profitability to increase at a CAGR of 44% and 63%, respectively during FY17-20E.

Exhibit 3: Polymer products – Capacity additions, operating margins and RoCE

Polymer Products	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Capacities (mtpa)	10,000	10,000	10,000	12,500	41,000	51,000	53,550	60,008	67,355
Growth (%)	-	*0%*	*0%*	*25%*	*228%*	*24%*	*5%*	*12%*	*12%*
Revenues	298	481	591	897	1,525	1,980	2,348	3,689	5,943
Growth (%)	*50%*	*61%*	*23%*	*52%*	*70%*	*30%*	*19%*	*57%*	*61%*
EBIT (Rs mn)	66	52	60	103	165	165	211	406	713
EBIT (%)	*22%*	*11%*	*10%*	*11%*	*11%*	*8%*	*9%*	*11%*	*12%*
ROCE (%)	*21%*	*12%*	*18%*	*22%*	*14%*	*8%*	*8%*	*17%*	*26%*

Source: Company, Emkay Research

Early mover advantage in monopoles – Opportunities beyond lattice towers

Globally, monopoles are now becoming a popular choice for installing T&D structures and telecom towers, as they not only reduce the space requirement but also easily comply with the local aesthetic and zoning requirements. Across USA and Europe, almost 100% of the incremental T&D and telecom structural installations in urban areas are on monopoles, while in non-urban areas, ~30% of the new installations are on monopoles. Though the use of monopoles has become widespread in USA, Europe, China etc, the market for monopoles has not taken off in India due to the high cost involved and lack of awareness. However, few utilities like PGCIL and select SEBs have commenced installing monopoles.

Recently, many T&D line projects have run into RoW issues on account of environmental / forest clearances, besides increasing resistance from farmers and land owners. Similarly, utilities are facing challenges in laying transmission lines in urban areas on account of non-availability of adequate land for installation of lattice towers. In such a scenario, monopoles are the only alternative as it occupies ~25-30% of the space needed by conventional lattice towers. Similarly, as demand for data continues to skyrocket, telecom companies would encounter severe capacity related issues on their existing networks. Most of the incremental telecom antennas are being installed on monopoles alongside public roads, unlike the earlier practice of installing telecom antennas atop tall buildings.

Skipper is among the 4 integrated manufacturers of monopoles in India, with others being Bajaj Electricals, Valmont Structures and Transrail Lighting. Almost all of them have facilities to design, manufacture and galvanize monopoles from 11kV up to 400kV. Since the domestic competition is limited to 4 players, the profit margins in monopoles are relatively superior to Transmission Towers. Skipper's monopole capacities stand at ~15,000MTPA, which can be augmented to ~40,000MTPA. In value terms, monopoles constitute less than 5% of Skipper's revenue in the Engineering Products segment. The existing domestic market for monopoles is worth ~Rs1bn *(T&D ~Rs500mn and the balance Rs500mn spread across telecom, luminaries etc.),* and going forward, we expect the demand for monopoles to expand at a faster pace, given the increasing urbanization and scarcity of land.

Exploring international markets to sustain profitable growth

After attaining strong position in the domestic markets, Skipper has aggressively focused on the international T&D segment to sustain the growth momentum. Over the last 3-4 years, the company has booked and successfully executed a significant number of international orders across various geographies. After tasting success in few international orders, Skipper is continuously looking to develop and add new market geographies to its overall exports portfolio, so that the company has the flexibility to refuse orders in certain geographies where contracts are not margin accretive. In case of over-dependence on any particular geography, the company could come under intense competitive pressure, leading to margin erosion. With its footprint spread across 30 countries in South America, Europe, Africa, Middle East, Asia and Australia, we expect strong accretion to its international orders, which could help cushion the impact of any slowdown in the domestic market. Exports now constitute ~8-10% of Engineering Products revenue. Going forward, exports revenues are expected to be the mainstay of Skipper's T&D revenue and the company's endeavor would be to increase exports to ~25-30% of Engineering Products revenues.

Exhibit 4: Skipper's growing presence across various geographies

SOUTH AMERICA	AFRICA	MIDDLE EAST	EUROPE	ASIA	AUSTRALIA
▪ Peru	▪ Kenya	▪ Jordan	▪ UK	▪ India	▪ Australia
▪ Colombia	▪ Egypt	▪ Saudi Arabia	▪ Germany	▪ Nepal	
▪ Chile	▪ Ghana	▪ UAE	▪ Spain	▪ Bangladesh	
	▪ Nigeria			▪ Sri Lanka	
	▪ Zambia			▪ Indonesia	
	▪ Sierra Leone			▪ Malaysia	
	▪ South Africa			▪ Phillipines	
	▪ Guinea				
	▪ Cameroon				
	▪ Congo				
	▪ Botswana				

Source: Company

Risks

Lower capacity utilization in Polymer Pipes could impact profitability and RoCE: The inability to ramp up production and sales in the Polymer Products division can affect profitability and return ratios for the segment as well as the company as a whole. Skipper has missed its earlier target of achieving ~Rs10bn revenue in the Polymer Products division by FY18E. While the company has a major presence in Eastern India (market share of ~10%), it would take some while before the company establishes itself in other regions and becomes a pan-India player with a national market share of 2-3%.

Slowdown in domestic order flows would impact earnings: Substantial proportion of Skipper's order flows are derived from the domestic market – largely from PGCIL (~51%) and SEBs (~22 %). While PGCIL has a pipeline of orders worth Rs1tn over the next 5 years, the SEBs are also expected to spend ~Rs200-225bn p.a. over the next 4-5 years in augmenting their transmission & transformation capacities. Any major slowdown in the capex plans of PGCIL or SEBs can significantly affect the company's revenue and profitability assumptions.

Volatility in commodity prices could compress margins: Higher prices of long products (steel) and zinc could adversely impact the profitability in the Engineering Products division. Though the domestic supplies to PGCIL and SEBs are immune to volatility in steel prices on account of the price variation clauses built into the contracts, the export orders are usually fixed price contracts and Skipper would have to absorb the losses arising from rising input prices. While zinc can be hedged on LME, the same mechanism is not available for steel.

Exchange rate fluctuations could affect profitability: Skipper is exposed to the wide fluctuations in foreign exchange market due to significant exposure through the import of RMs and export of its finished products. The company's policy is to hedge majority of the foreign exchange exposure through currency forward contracts.

Exhibit 5: Assumptions - Income statement

Rs mn	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Segment Revenues								
Engineering Products	8,350	9,554	11,768	13,260	14,237	16,129	18,368	20,664
Growth %	*24%*	*14%*	*23%*	*13%*	*7%*	*13%*	*14%*	*13%*
Infrastructure Projects	172	270	462	277	813	1,057	1,427	1,926
Growth %	*-58%*	*57%*	*71%*	*-40%*	*194%*	*30%*	*35%*	*35%*
PVC Products	481	591	897	1,525	1,980	2,348	3,689	5,943
Growth %	*61%*	*23%*	*52%*	*70%*	*30%*	*19%*	*57%*	*61%*
Total	**9,003**	**10,415**	**13,128**	**15,062**	**17,030**	**19,534**	**23,484**	**28,533**
EBITM								
Engineering Products	7.3%	9.5%	15.4%	14.6%	14.6%	13.5%	13.0%	13.0%
Infrastructure Projects	28.7%	39.7%	23.8%	15.5%	13.7%	13.0%	13.0%	13.0%
PVC Products	10.8%	10.1%	11.5%	10.8%	8.4%	9.0%	11.0%	12.0%
EBIT								
Engineering Products	606	904	1,809	1,937	2,083	2,177	2,388	2,686
Infrastructure Projects	50	107	110	43	111	137	185	250
PVC Products	52	60	103	165	165	211	406	713
Total	**707**	**1,071**	**2,022**	**2,145**	**2,359**	**2,526**	**2,979**	**3,650**
Corporate Expenditure	-20	119	90	194	214	225	250	275
Other Income	14	21	17	52	31	15	15	15
Finance cost	464	605	583	570	611	558	548	499
PBT	**278**	**367**	**1,365**	**1,433**	**1,565**	**1,758**	**2,196**	**2,891**
Taxes	90	98	474	482	450	527	659	867
PAT	**187**	**269**	**891**	**951**	**1,115**	**1,231**	**1,538**	**2,023**
EPS	**2.5**	**2.7**	**8.7**	**9.3**	**10.9**	**12.0**	**15.0**	**19.8**

Source: Company, Emkay Research

Valuations

We expect the Engineering Products segment to report steady growth in revenue and profitability at ~13% and ~9% CAGR, respectively over (FY17-20E). The RoCE in the Engineering Products segment is likely to remain attractive at ~28%, as capacity utilization is expected to remain high at ~85-90%, driven by stable T&D order flows from the domestic as well as overseas markets. Though the infrastructure projects business is not a focus area for Skipper, the segment is expected to report revenue and profitability CAGR of ~33% and 31%, respectively with RoCE of ~18% over (FY17-20E).

The Polymer Products segment is poised to enter a high growth trajectory, with revenue and profitability likely to grow at a CAGR of ~44% and 63%, respectively with a RoCE of ~26% over (FY17-20E). Since Skipper has expanded capacities in Polymer Products business by 5x in the last 3 years, the RoCE has remained low at ~8% in FY17 and FY18 on account of low margins (impact of entry level pricing) and sub-optimal utilization levels at these new locations / facilities. This is in sharp contrast to the strategy followed by the company in its Engineering Products segment where capacities were progressively added after achieving ~80-90% utilization in the existing facilities, which ensured that the RoCE always remained in the 27–30% range. Going forward, the RoCE in the Polymer Products segment is also expected to improve to 26%+, as capacity utilization approaches optimum level over the next 2-3 years, led by expanding distribution networks and increasing focus on branding, marketing and sales promotion. It is pertinent to note that Skipper is planning to double the capacities in the Polymer Products segment to ~100,000MTPA and is targeting revenue of Rs10bn over the next 4-5 years.

We have valued Skipper on SoTP basis, assigning different multiples to value each business segments. We initiate coverage with a BUY rating and a target price of Rs282.

Exhibit 6: Segment PAT (FY2020)

Rs mn	Engineering	Infrastructure	Polymer	Other Income
EBIT	2,686	250	713	15
Less: Interest	351	49	99	-
Corporate exp.	193	27	54	-
PBT	2,142	174	560	15
Less: Tax	642	52	168	5
PAT	**1,499**	**122**	**392**	**11**

Source: Company, Emkay Research

Exhibit 7: Valuation summary (FY2020)

Rs mn	PAT	P/E (x)	Valuation	Per share (In Rs)
Engineering	1,499	13.0	19,488	190
Infrastructure	122	13.0	1,585	15
Polymer	392	20.0	7,837	77
Total Value			28,910	
No of Shares			102	
Target Price			**282**	

Source: Company, Emkay Research

Exhibit 8: Peer valuations

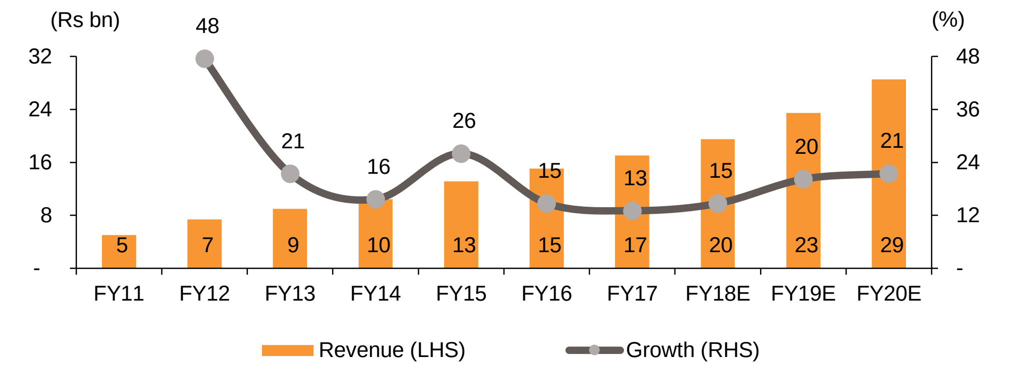
Rs mn	Revenues	EBITDAM	PAT	RoE (%)	EV/EBITDA (x)	P/E (x)
T&D Cos (Based on FY2019E)						
KEC International	1,15,481	10.0%	5,088	23.7%	8.0	15.1
Kalpataru	65,828	11.1%	3,665	12.6%	8.1	15.2
Techno Electric	19,173	19.6%	2,754	20.5%	9.8	14.3
Polymer Product Cos (Based on FY2020E)						
Astral Polytechnik	31,710	15.1%	2845	20.8%	19.2	32.6
Supreme Industries	67,510	16.8%	6480	27.0%	13.0	22.3
Finolex Industries	34,732	18.9%	4149	15.0%	12.9	20.4
Skipper (Based on FY2019E)	**23,484**	**13.3%**	**1,538**	**22.2%**	**8.2**	**14.2**
Skipper (Based on FY2020E)	**28,533**	**13.4%**	**2,023**	**23.3%**	**6.6**	**10.8**

Source: Company, Emkay Research, Bloomberg

Financials

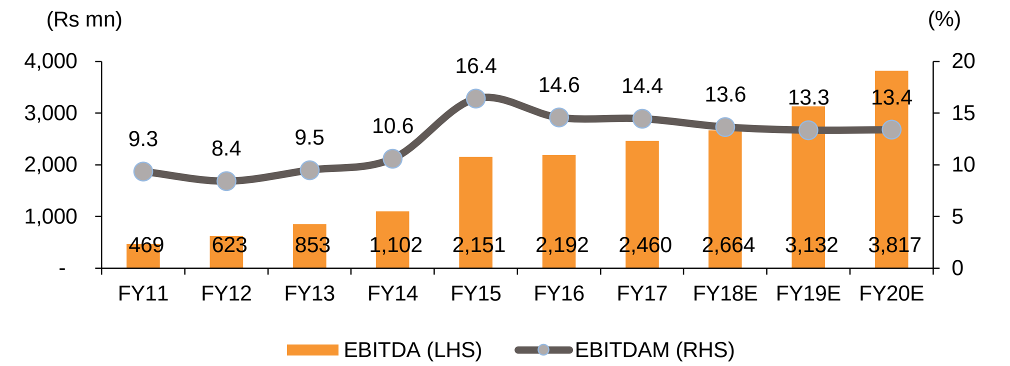
Skipper's revenue is expected to increase at a CAGR of 19% over FY17-FY20E, driven by strong growth in Infrastructure Projects (CAGR of 33%) and Polymer Products (CAGR of 44%) while the Engineering Products is expected to report steady growth (CAGR of 13%).

Exhibit 9: Revenue and Growth



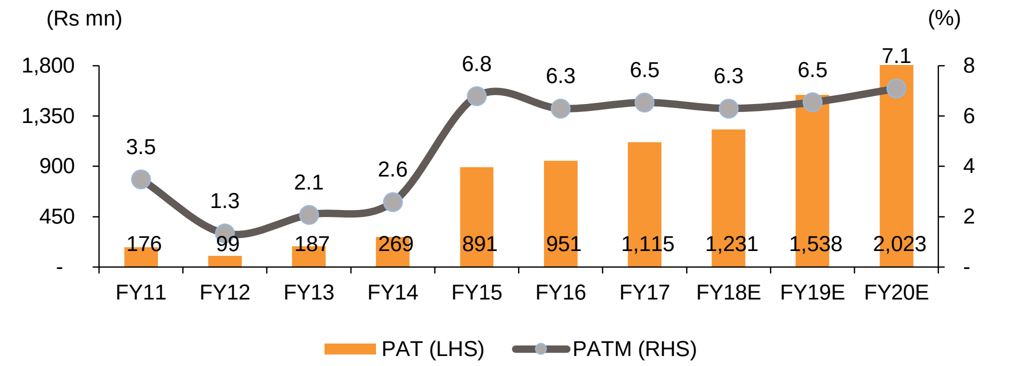
Source: Company, Emkay Research

Exhibit 10: EBITDA and EBITDAM



Source: Company, Emkay Research

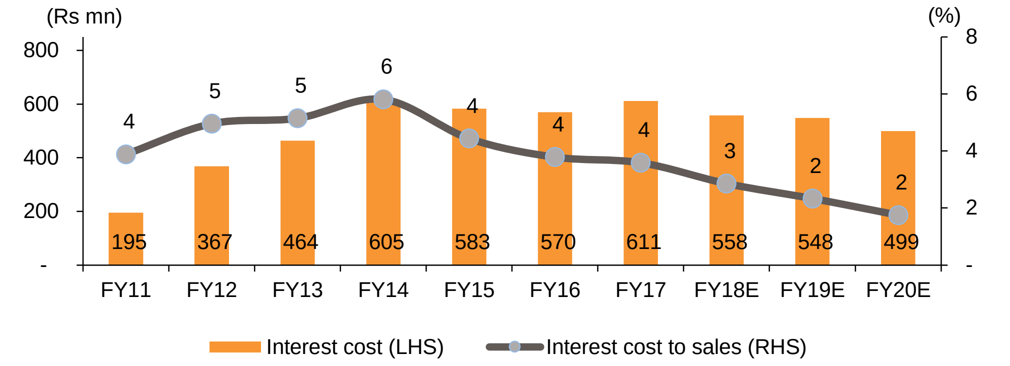
Exhibit 11: PAT and PATM



Source: Company, Emkay Research

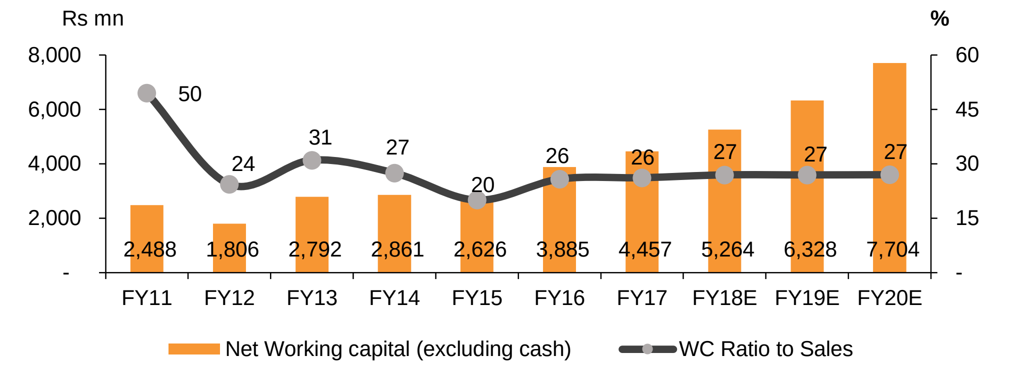
We expect the interest cost and net working capital (Excl. cash) to remain stable at 2% and 27% of sales respectively. The RoCE and RoE is also expected to remain stable at 27% and 23%, respectively, led by higher capacity utilizations and profitability in the Polymer Products segment.

Exhibit 12: Interest Cost



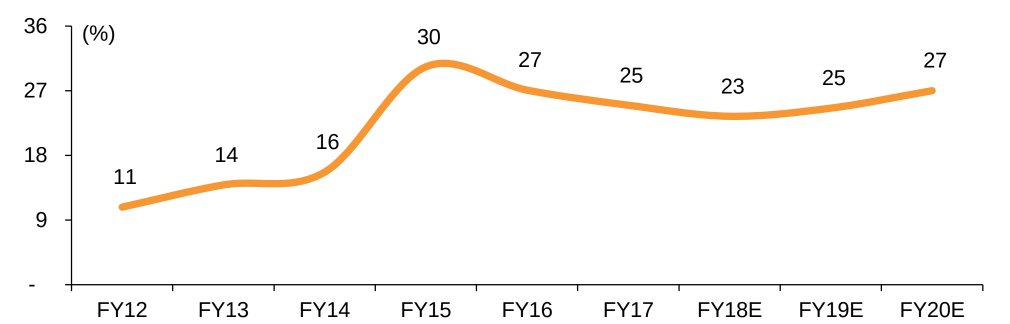
Source: Company, Emkay Research

Exhibit 13: Net Working Capital excluding cash



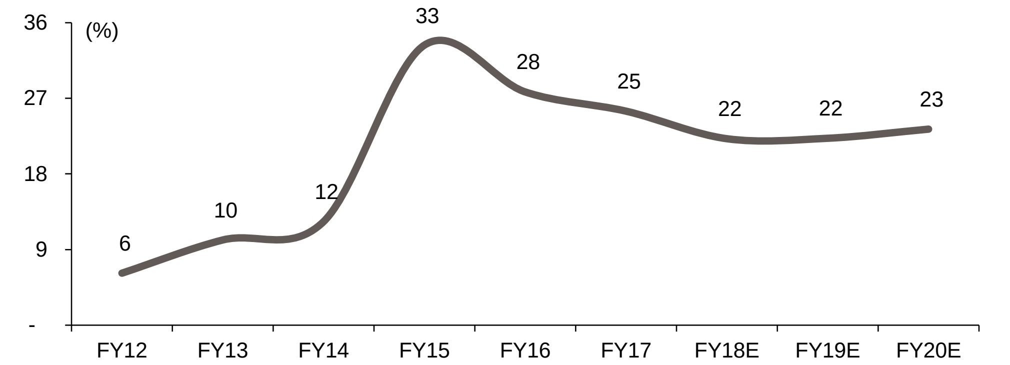
Source: Company, Emkay Research

Exhibit 14: ROCE



Source: Company, Emkay Research

Exhibit 15: ROE



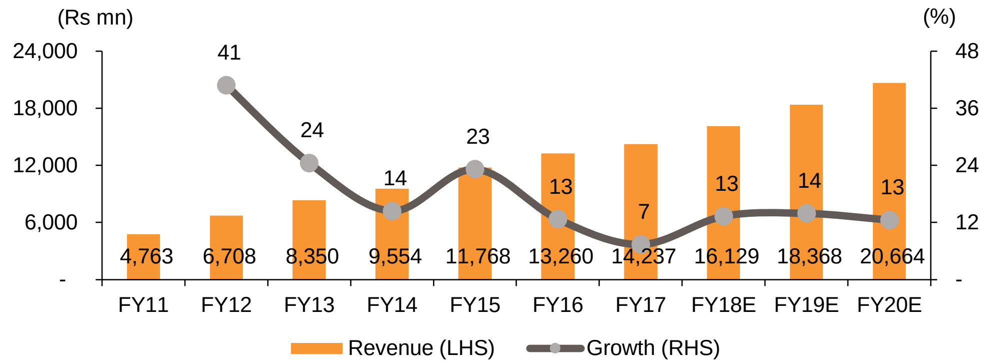
Source: Company, Emkay Research

Segment Financials

Engineering Products

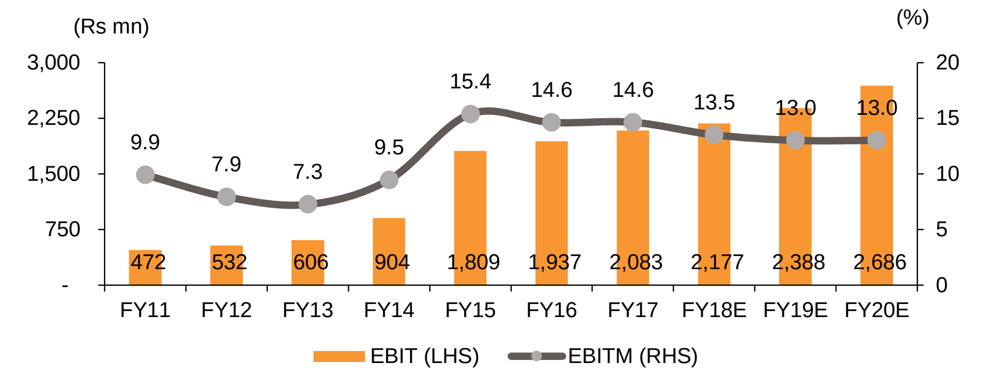
Revenue in the Engineering Products segment is expected to grow at a CAGR of 13% over FY17-FY20E, led by steady growth in T&D order flows from the domestic as well as overseas markets. While order flows from PGCIL (~Rs200bn p.a.) are expected to remain flat for the next 4-5 years, we expect incremental order flows from SEBs (~Rs200-250bn p.a.) and TBCB projects. Contribution from exports is also expected to improve during FY18-20E. However, EBITM in the segment is likely to stabilise at ~13% in FY20E from 14.6% in FY17, as competitive intensity is expected to increase in the domestic market.

Exhibit 16: Engineering Products - Revenue



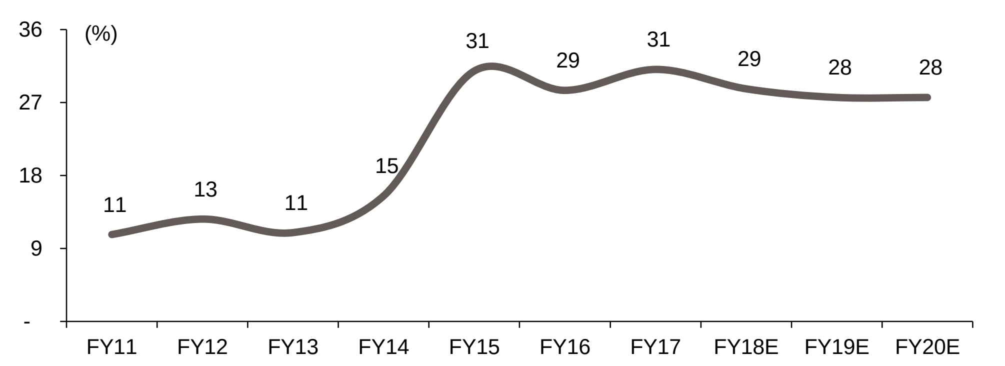
Source: Company, Emkay Research

Exhibit 17: Engineering Products - EBIT and EBITM



Source: Company, Emkay Research

Exhibit 18: Engineering Products - ROCE



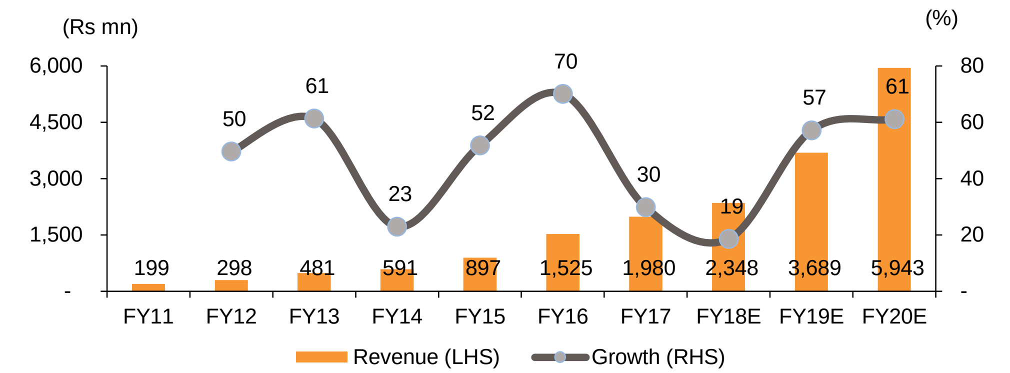
Source: Company, Emkay Research

Polymer Products

The cumulative effect of the recent Government of India (GoI) policies on demonetization and introduction of GST has impacted the sales of Skipper's Polymer Products in FY17 and 1HFY18. Coming immediately after the recent capacity expansions, this slowdown will affect fixed cost absorption and squeeze profit margins in the Polymer Products segment during FY18. Management commentary indicates that the impact of GST on PVC sales has not completely worn out till now.

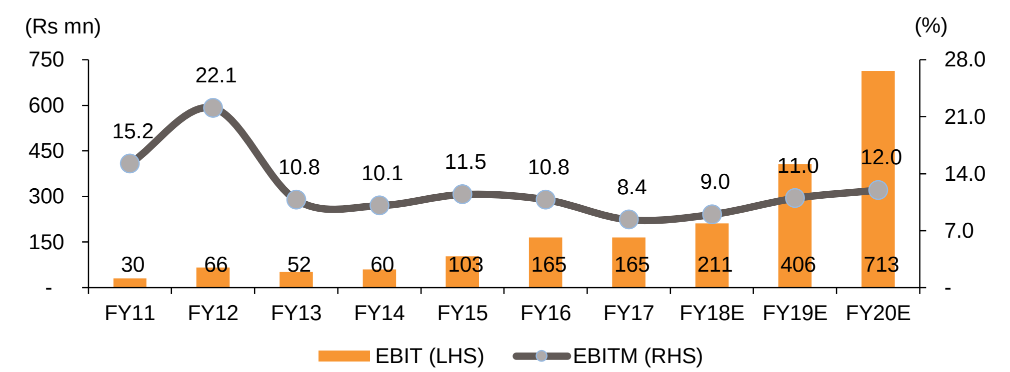
Going forward, revenue in the Polymer Products segment is expected to grow at a robust CAGR of 44% over FY17-FY20E, as capacity utilization increases at the new locations / facilities on the back of expanding distribution network, and sharpening focus on branding, marketing and sales promotion. EBITM is also expected to rise from ~8.4% in FY17 to 12% in FY20E, driven by expanding volumes and relatively better product mix – higher proportion of sales from Plumbing & Sewage pipes and value-added products.

Polymer Products - Revenue



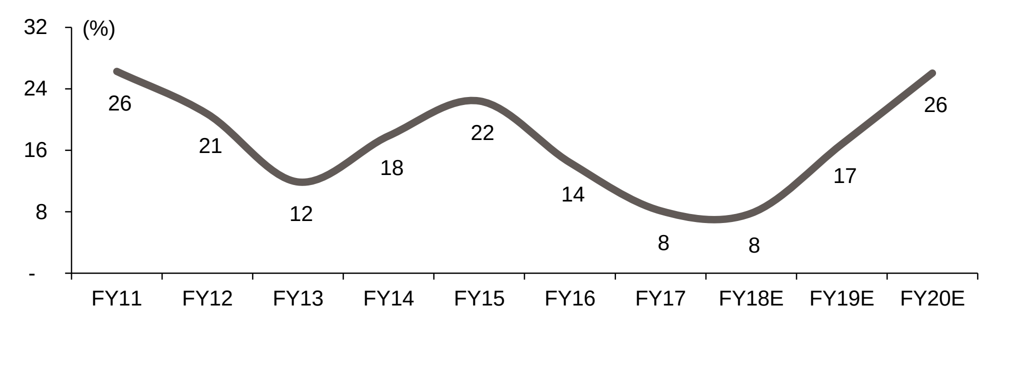
Source: Company, Emkay Research

Exhibit 19: Polymer Products - EBIT and EBITM



Source: Company, Emkay Research

Exhibit 20: Polymer products - ROCE

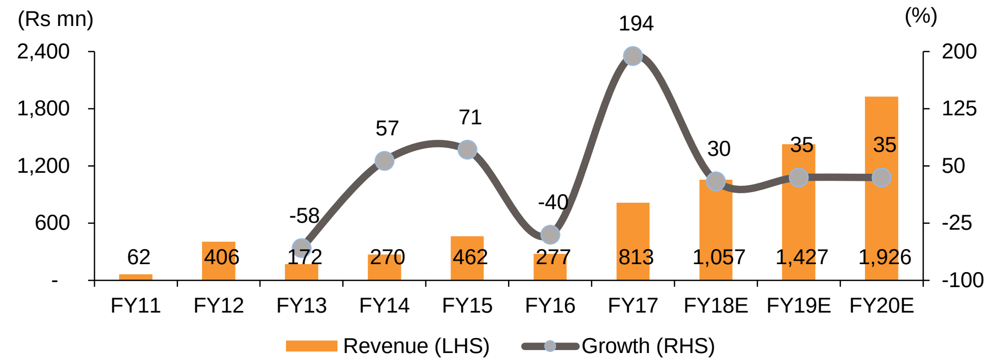


Source: Company, Emkay Research

Infrastructure Projects

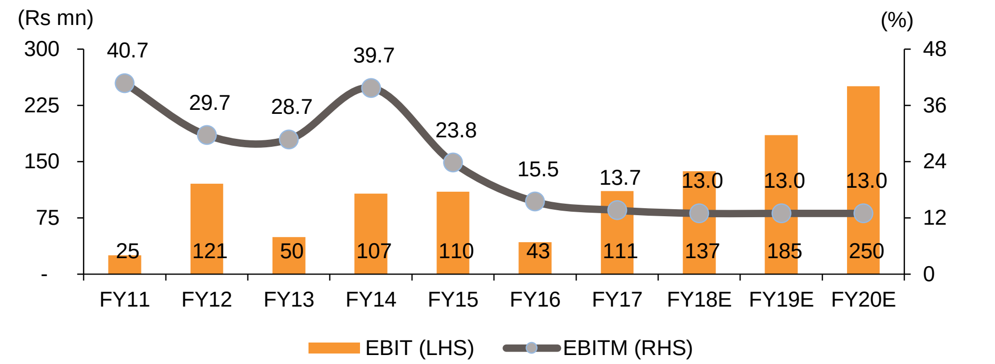
Revenue in the Infrastructure segment is expected to grow at 33% CAGR over FY17-FY20E with the EBITM remaining stable at 13%. The company has recently executed various projects and has gained the requisite qualifications to bid for larger orders. However, Skipper is not keen on increasing the order book in the Infrastructure segment at the cost of margins or higher working capital.

Exhibit 21: Infrastructure projects - Revenue



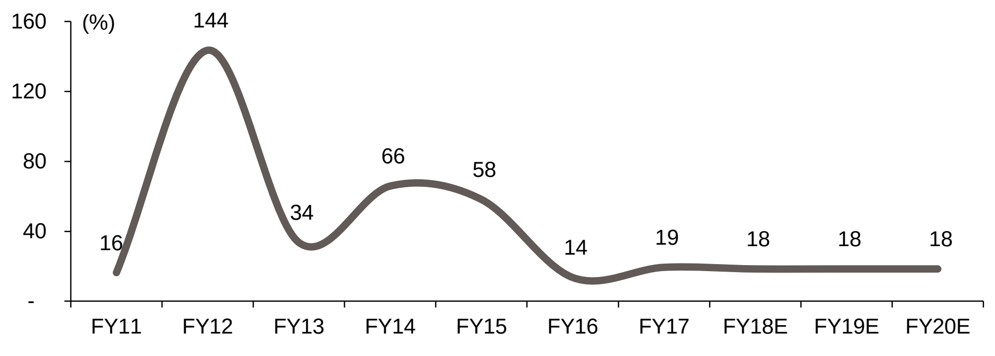
Source: Company, Emkay Research

Exhibit 22: Infrastructure projects - EBIT and EBITM



Source: Company, Emkay Research

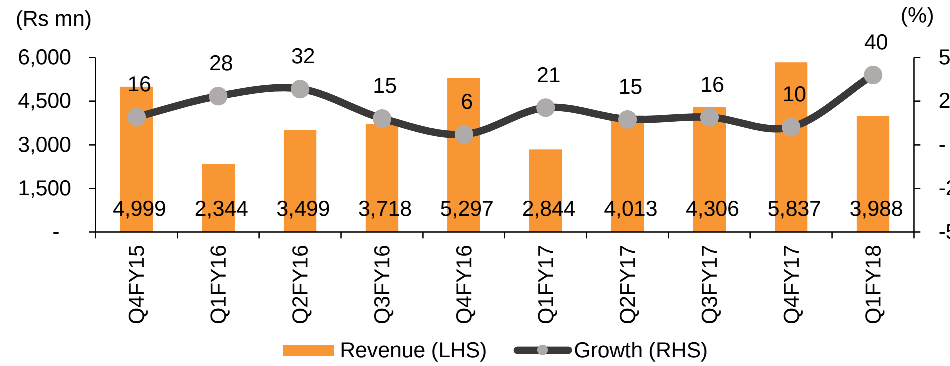
Exhibit 23: Infrastructure projects - ROCE



Source: Company, Emkay Research

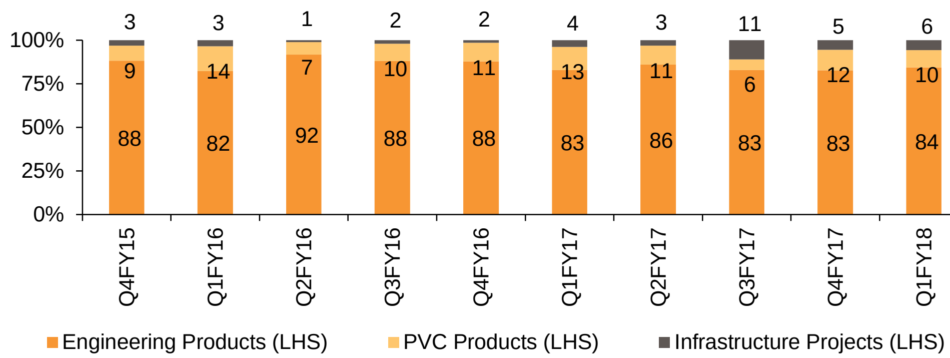
Quarterly Financials

Exhibit 24: Revenues



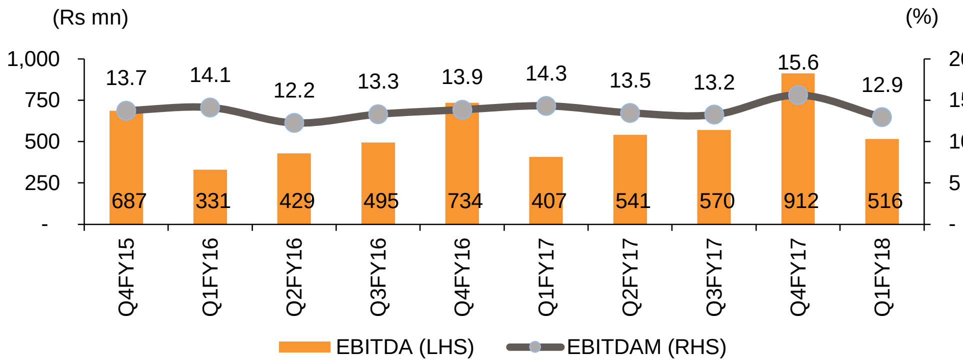
Source: Company, Emkay Research

Exhibit 25: Revenue mix



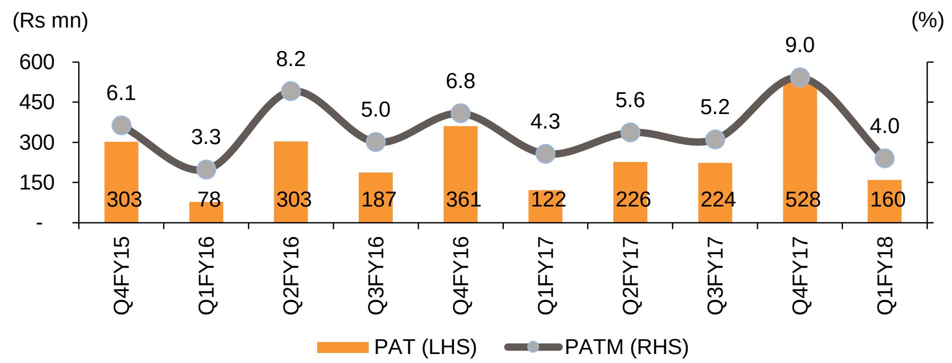
Source: Company, Emkay Research

Exhibit 26: EBITDA



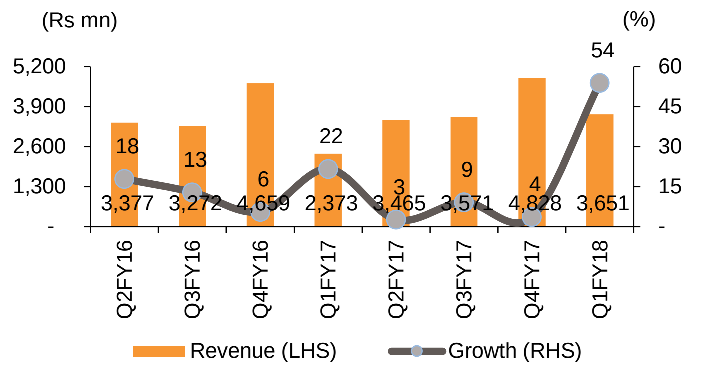
Source: Company, Emkay Research

Exhibit 27: PAT



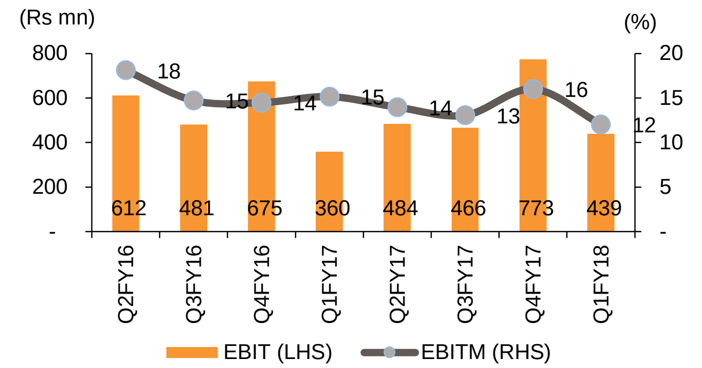
Source: Company, Emkay Research

Exhibit 28: Engineering Products - Revenue



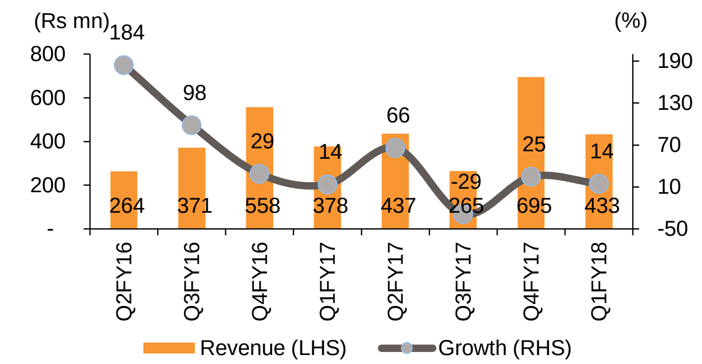
Source: Company, Emkay Research

Exhibit 29: Engineering Products - EBIT and EBITM



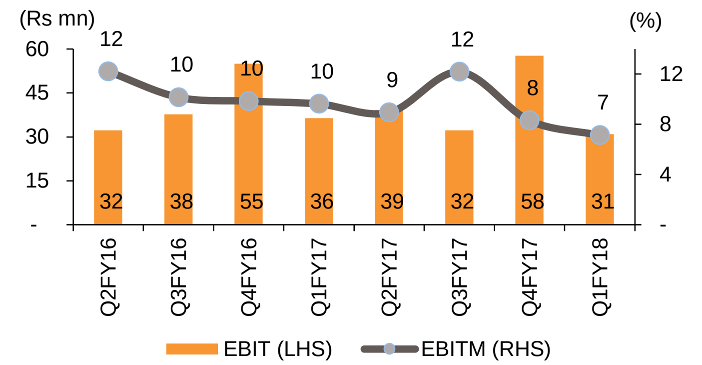
Source: Company, Emkay Research

Exhibit 30: Polymer Products - Revenue



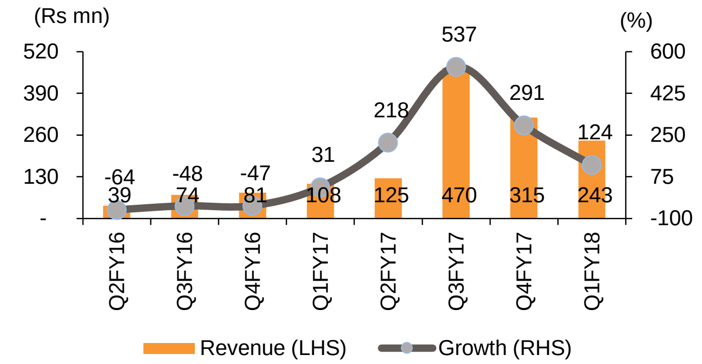
Source: Company, Emkay Research

Exhibit 31: Polymer Products - EBIT and EBITM



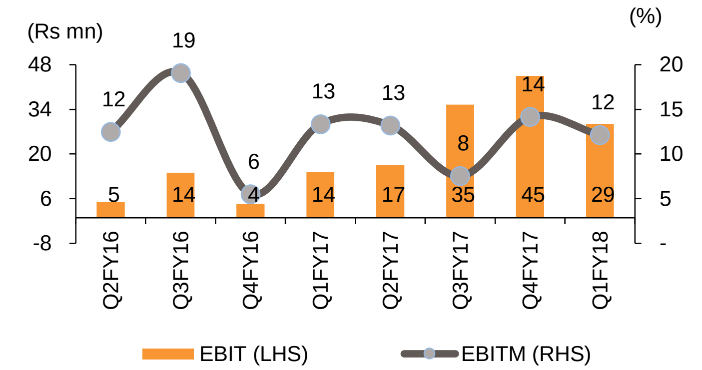
Source: Company, Emkay Research

Exhibit 32: Infrastructure projects - Revenue



Source: Company, Emkay Research

Exhibit 33: Infrastructure projects - EBIT and EBITM



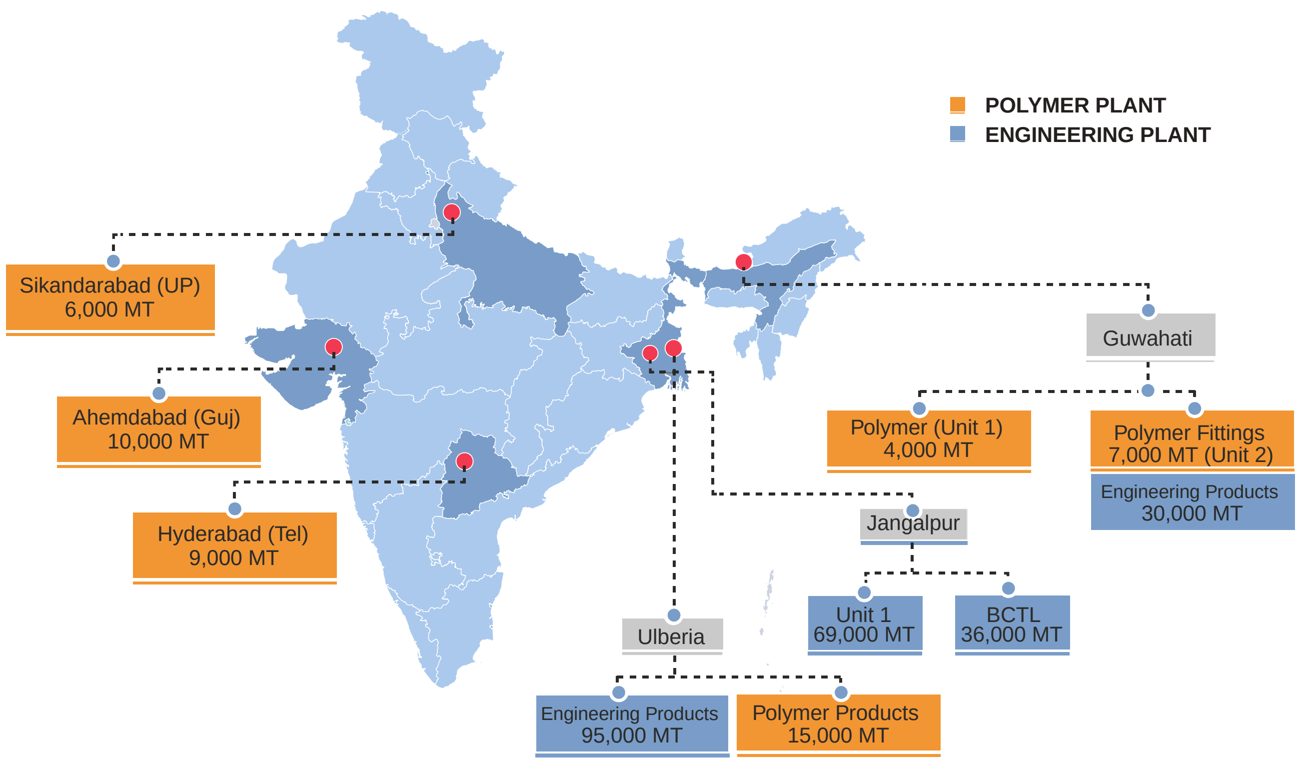
Source: Company, Emkay Research

Company Background

Skipper is the flagship company of the Kolkata based S. K. Bansal group, which was established in FY1961 by Mr. Sadhu Ram Bansal. Originally incorporated as Skipper Investments Ltd in FY1981, the company commenced operations as a manufacturer of Hamilton Poles. In FY1990, the company's name was changed to Skipper Steels Ltd and the company diversified into the manufacturing of Telecom Towers & Masts. In FY2001, the company set up LPG cylinder manufacturing unit, and subsequently built its first Tube mill in FY2003 and its first galvanizing plant in FY2005. Skipper's Transmission Tower manufacturing facility (400kV) was approved by PGCIL in FY2006. Later in FY2009, the company was renamed as Skipper Ltd and it marked its entry into Polymer Products by commissioning its first PVC unit. As on date, Skipper is India's largest and among the world's top ten largest Transmission Tower manufacturing company having a production capacity of 230,000MTPA. The company has been awarded the "Largest Tower Supplier" award by PGCIL for two consecutive years - FY2016 and FY2017. Skipper is also one of the major manufacturers and suppliers of Polymer Pipes & Fittings in Eastern India and is aiming to become a pan-India player with a significant market share in the next 2-3 years.

Skipper operates through 3 segments - Engineering Products, Infrastructure Projects and Polymer Products. The Engineering Products segment includes towers, angles, high mast poles, swaged poles and scaffoldings. The company has 4 manufacturing plants for T&D structures in Eastern India – 2 at Jangalpur (West Bengal), 1 at Uluberia (West Bengal) and 1 at Guwahati (Assam) with installed capacities aggregating to 230,000MTPA. The Infrastructure Projects segment includes horizontal direct drilling services, and engineering, procurement & construction services. The Polymer Products segment includes PVC, CPVC, UPVC, soil, waste & rain (SWR) pipes & fittings, and other related products. The company has 5 manufacturing facilities for polymer Products spread across 5 regions of India – West Bengal, UP, Gujarat, Telangana and Assam with aggregate capacities of 51,000MTPA, and is planning to double the same to 100,000MTPA in the next 4-5 years.

Exhibit 34: Pan India manufacturing facilities



Source: Company, Emkay Research

Exhibit 35: Plant locations and capacities

Business segments	Kolkata	Guwahati	Ahmedabad	Sikandrabad (UP)	Hyderabad
Engineering products	Three integrated facilities for manufacturing T&D structures located at Uluberia and Jangalpur with aggregate capacities of 200,000 MTPA	Manufacturing plant for T&D Structures with capacities of 30,000 MTPA catering to the growing infrastructure requirement of North East India			
Polymer products	Polymer pipe manufacturing facility at Uluberia with capacity of 15,000 MTPA	**Unit 1:** Asset light manufacturing facility for polymer pipes with 4,000 MTPA capacity to cater to the demand of the North East India market **Unit 2:** Asset light manufacturing facility for polymer pipe fittings with 7,000 MTPA capacity to cater for pan India markets	Asset light polymer pipe manufacturing facility with capacities of 10,000 MTPA to cater to requirement of western India	Asset light polymer pipe plant with 6,000 MTPA of installed capacity for manufacturing plumbing and agri pipes to cater to demands of Northern India	Asset light polymer pipe plant with 9,000 MTPA installed capacity for manufacturing plumbing and agri pipes to cater to demands of South India

Source: Company, Emkay Research

Exhibit 36: Key Timelines

1981: Incorporation and started manufacturing Hamilton Poles
1990: Company forayed into manufacturing of Telecom Towers & Masts
2001: Set up LPG cylinder manufacturing unit
2003: Set up first Tube Mill
2005: Set up first galvanising plant
2006: Crossed revenue of Rs1,000 million
2006: Received PGCIL approval for Tower unit and first order itself for 400KV towers
2006: Entered into a manufacturing Tieup with Ramboll,Denmark- the world's largest Tower design Co.
2008: Started process of conversion of Tower production process from manual to automated CNC
2009: Secured India's first order for 800KV transmission towers from PGCIL
2009: Commissioned Uluberia unit with first PVC unit and India's first double side Tube GI plant
2010: Commissioned Angle Rolling Mill for backward integration of Transmission Towers
2013: Crossed revenue of Rs10,000 million
2013: Agreement with South America's largest TSO for exclusive supply to their transmission projects
2015: Entered into technological tie-up with SEKISUI of Japan for CPVC compound
2015: PVC unit got operational at Ahmedabad & Guwahati
2016: Awarded "The Largest Tower Supplier" in Tower Supply Category by PGCIL
2016: New PVC unit got operational at Hyderabad
2017: Company emerged as the Largest manufacturer of T&D Structures in India.
2017: Commissioned second plant in Guwahati catering to engineering products and polymer products.
2017: Largest Tower Supplier Award from PGCIL for the second consecutive year

Source: Company, Emkay Research

Exhibit 37: Management Profile

Mr. Sajan Kumar Bansal Managing Director	▪ Mr. Sajan Kumar Bansal has led the transformation of the company from a single product manufacturer to multi-unit, multiproduct manufacturer, ranging from engineering products to polymer products.
Mr. Sharan Bansal Whole Time Director	▪ Mr. Sharan Bansal is a graduate in Mechanical Engineering and heads the transmission tower manufacturing and EPC business of the Company. ▪ He has transformed the company from a single product manufacturer to being the largest T&D structure manufacturer in India
Mr. Devesh Bansal Whole Time Director	▪ Mr. Devesh Bansal has a Masters in International Business and heads the Tubes and Tubular product divisions of the company. ▪ He pioneered the production of Monopoles and is also responsible for the Group's upstream expansions.
Mr. Siddharth Bansal Whole Time Director	▪ Mr. Siddharth Bansal spearheads the fast-growing PVC pipe manufacturing business. ▪ Having completed his education in Entrepreneurship from University of Illinois, USA he led the company's foray into non-steel products

Source: Company, Emkay Research,

Engineering products

Skipper is India's largest manufacturer of Transmission Towers and distribution poles, and is among the top 10 largest tower producers in the world. The company has ~10-15% of the domestic market share in Transmission Towers. With ~230,0000MTPA of manufacturing capacities, Skipper has the benefit of scale and experience to implement large T&D orders. Over the past many years, the company has, at various intervals augmented capacities from 100,000MTPA in FY13 to 230,000MTPA in FY17. Despite adding capacities at regular intervals, Skipper has been able to consistently operate at ~85%+ capacity utilization for the past several years. It is the only domestic company having 8 galvanizing plants with capacities of over 230,000MTPA – including one of India's largest galvanizing plant (14-metre-long) with capacity of 8,000tonne / month, which ensures that the tower & monopoles of the highest sizes can be galvanized in a single dip, thereby eliminating double-dipping and zinc marks.

Almost 75% of the production is through automated CNC lines, which helps in increasing productivity and lower labor cost. Furthermore, the advantage of having fully integrated facilities such as in-house rolling mills, bulk sourcing of large quantities of billets and proximity to the RM sources allows Skipper to have 200-300bps margin advantage over its nearest competitors. The integrated operations enables the company to capture ~80% of the value addition from basic materials (rolling of billets) into angles that form the core of the Transmission Towers. Likewise, the sourcing of majority of its RM from SAIL's Durgapur plant (less than 150Kms distance) ensures lower transportation cost – ~Rs500 per tonne v/s the industry standard of ~Rs2,000 per tonne (Source: Company).

Product offerings:

- **Transmission Towers:** Skipper offers the complete product basket of towers ranging from 66KV to 800KV Towers - Single Circuit, Double Circuit, Multi-Circuit Towers suitable for Twin, Triple, Quad or Hex Conductor configurations. The company is also among the few domestic manufacturers that have the capability to manufacture 1,200kV transmission towers.
- **Poles**: Skipper's steel poles are used extensively for power distribution & lighting projects in India as well as in Gulf & African countries. The company manufactures wide range of commercial poles, comprising Swaged poles (used in street lighting, traffic signals and LT lines), High Mast poles (used in illumination of parking yards, railway yards, stations, urban areas, airports, stadiums etc.), Octagonal poles (used as street lightning poles or for Low Voltage Power Distribution projects) and Conical poles.
- **Monopoles:** Monopoles are self-supporting tubular structures that carry transmission lines from 11kVA to 400kVA. Monopoles are also extensively being used for new telecom capacities and 4G network expansion for heights up to 40 metres.
- **Angles and Fasteners:** Angles are manufactured as part of the backward integration for its own towers. The company manufactures a wide range of Bolt/Nuts/Washers with in-house galvanizing to ensure faster erection turnaround, thereby reducing the need for storing surplus inventory at site.
- **Solar Structures**: Skipper has the expertise in building solar structures for both CSP as well as PV systems.

Exhibit 38: Engineering Products – Revenue, EBITM and RoCE

Rs in mn	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues	4,763	6,708	8,350	9,554	11,768	13,260	14,237	16,129	18,368	20,664
Growth (%)	-	*41*	*24*	*14*	*23*	*13*	*7*	*13*	*14*	*13*
EBIT	472	532	606	904	1,809	1,937	2,083	2,177	2,388	2,686
EBITM (%)	*10*	*8*	*7*	*9*	*15*	*15*	*15*	*14*	*13*	*13*
ROCE (%)	*11*	*13*	*11*	*15*	*31*	*29*	*31*	*29*	*28*	*28*

Source: Company, Emkay Research

Polymer products

Skipper is a late entrant into the domestic Polymer Pipes business. However, within a short span of 6 years, the company has increased its capacities to 51,000MTPA across 5 major locations. The company is now the largest PVC pipe manufacturer in West Bengal and has a market share of ~10% in Eastern India (Source: Company). Skipper also has a technological tie-up with Sekisui of Japan for sourcing of CPVC compounds from which it manufactures CPVC pipes & fittings under the brand name of "Skipper Durastream". The Polymer Products segment caters to Plumbing & Sewage (UPVC, CPVC and SWR pipes & fittings), Agriculture (Rigid pipes & fitting) and Borewell (casing pipes, column pipes and ribbed strainer pipes). At present, ~75% of the Polymer Products business is derived from Agriculture while the balance 25% from Plumbing & Sewage. Going forward, Skipper is targeting to increase the revenue from Plumbing & Sewage to 40% of the Polymer Products revenue. Also, the share of the value-added products, like Fittings and CPVC products is also expected to more than double over the next 2-3 years.

Going forward, Skipper is targeting an exponential growth in its Polymer Products business, led by aggressive capacity additions, and branding, marketing & sales promotion. The company continues to expand its national footprint in the organised PVC pipe market by developing and cultivating a widespread distributorship of over 3,500 channel partners. As production gains traction over the next 2-3 years, we expect Skipper to benefit from operating leverage and economies of scale in the procurement of PVC resins. Skipper is planning to further increase the Polymer Pipe capacity to 100,000MTPA over the next 4-5 years. Except for the West Bengal plant, Skipper has always adopted the asset light approach in expanding its Polymer Products capacities across India. The company prefers to lease the land and warehouse instead of owing the same – this not only helps in reducing the execution timelines from 24 months to 9 months, but also leads to reduced capex of ~Rs10,000 / tonne v/s the greenfield expansion cost of Rs20,000 / tonne.

Product offerings:

Plumbing and Sewage

- UPVC, 100% Lead free Plumbing Pipes & Fittings
- SWR Pipes and Fittings
- CPVC Pipes and Fittings by DURASTREAM CPVC Compound

Borewell

- Column Pipes
- Casing Pipes
- Ribbed Strainer Pipes

Agriculture Pipes

Exhibit 39: Polymer Products – Revenue, EBITM and RoCE

Rs in mn	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues	199	298	481	591	897	1,525	1,980	2,348	3,689	5,943
Growth (%)	*-*	*50*	*61*	*23*	*52*	*70*	*30*	*19*	*57*	*61*
EBIT	30	66	52	60	103	165	165	211	406	713
EBITM (%)	*15*	*22*	*11*	*10*	*11*	*11*	*8*	*9*	*11*	*12*
ROCE (%)	*26*	*21*	*12*	*18*	*22*	*14*	*8*	*8*	*17*	*26*

Source: Company, Emkay Research

Infrastructure projects

In the Infrastructure Projects division, Skipper offers integrated solutions across tower design, tower testing, manufacturing, and onsite construction. It has built a dedicated team for EPC line construction, with capabilities to execute turnkey transmission projects up to 800kV HVDC for various utilities. The company is also a pioneer of trench-less technology service in India, offering Horizontal Directional Drilling (HDD), which facilitates the faster installation of underground utilities, thereby eliminating the need for surface excavation. The company has executed trenchless horizontal drilling for the installation of telecom cable networks, HT/LT power cable networks, water & sewerage pipelines and oil & gas pipelines, among others.

Exhibit 40: Completed EPC Projects

400 kV D/C Panchkula – Patiala Transmission Line under Northern Region PGCIL Strengthening Scheme-XXXII for PGCIL
Partial work for Tower Package - A4, Islampur- Saharsa Section Inabensa/ of + 800 kV HVDC Bipole Biswanath Chariyali - Agra Transmission Line PGCIL
Partial work for Tower Package – A7 for Gorakhpur – Gomti River Inabensa/ Portion of + 800 kV HVDC Bipole Biswanath Chariyali to Agra Transmission line PGCIL
400 kV D/C Quad Bhadla (Jaisalmer) to Bikaner Transmission Line for RRVPN

Source: Company, Emkay Research

Exhibit 41: Current EPC Projects

400 kV D/C Rapp (7&8) – Kota (Part A) Transmission Line for PGCIL
400 kV D/C Allahabad – Kanpur Transmission Line for PGCIL
400 kV D/C Jigmeling – Alipurduar (India Portion) Transmission Line for PGCIL
220/132Kv Dc/Sc Lines Against Package – 2 Of Tender Specification No Td 400/15 for UP Power Transmission.
220/132Kv Dc/Sc Lines Against Package – 3 Of Tender Specification No Td 400/15 for UP Power Transmission.
800Kv HVDC Raigarh – Pugalur Package – 09 for PGCIL

Source: Company, Emkay Research

Exhibit 42: Infrastructure Projects – Revenue, EBITM and RoCE

Rs in mn	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues	62	406	172	270	462	277	813	1,057	1,427	1,926
Growth (%)	-	-	*-58*	*57*	*71*	*-40*	*194*	*30*	*35*	*35*
EBIT	25	121	50	107	110	43	111	137	185	250
EBITM (%)	*41*	*30*	*29*	*40*	*24*	*15*	*14*	*13*	*13*	*13*
ROCE (%)	*16*	*144*	*34*	*66*	*58*	*14*	*19*	*18*	*18*	*18*

Source: Company, Emkay Research

Major opportunities for T&D projects in domestic and overseas markets

T&D on track for major expansion

While the Indian Power sector has seen remarkable accretion in generation capacities, investments in T&D networks have lagged behind, causing network congestion and inefficiencies. The requirement for large scale transmission gets further accentuated as the load centers are scattered at far-off places, away from generating stations located in resource-rich areas. Initial estimates from the 19th Electric Power Survey (EPS) for the annual peak load and load generation balance analysis indicate that massive transmission corridors need to be built in Northern and Southern regions for transferring power from other regions. Going forward, we expect subdued investments in thermal generation capacities while capex in T&D network is expected to gain pace as utilities upgrade and ramp-up the T&D infrastructure.

Taking into consideration the total transmission requirements, it is estimated that the 13th Five-year plan period would require ~106,000ckms of transmission lines, 14,000MW of HVDC terminal capacity and 292,000MVA of transformation capacity. While the central transmission utility like PGCIL is expected to have a significant spend, majority of the investments are likely be in the Intra State Transmission System (Intra-STS) by respective state transmission utilities. India currently has high capacity transmission systems with 765kV and 400kV AC technology and HVDC systems deploying up to +800kV technology. When quantified, it would entail ~29,400 circuit kilo meters (ckms) of 765kV lines and 157,600 ckms of 400kV lines. The 765kV and 400kV substation capacities are at ~155,000MVA and ~234,300MVA, respectively.

Green energy corridor - Integrating renewable energy with regional grids

India is also planning to add massive amounts of renewable energy (RE) over the next 4-5 years. RE is inherently volatile and intermittent, and as such would negatively affect the normal transmission network. Hence, it would be imperative to create a dedicated independent transmission corridor to evacuate the resultant infirm power. The Green Energy Corridor project would be a dedicated stable network to transmit massive volume of power from rich RE power states to the ones with higher energy demands by creating intra-state and inter-state transmission infrastructure. The intra-state transmission component would be implemented by respective states, while PGCIL would execute the inter-state part. As per estimates given by NITI Aayog, the cost of strengthening the inter-region and intra-region transmission lines to achieve the integration of renewables with the national grid will be ~Rs1.2tn

Rs2.6tn addressable opportunity for next 5 years

Extrapolating the current cost of construction of the transmission system built by PGCIL, it has been estimated by the Draft National Electricity Plan (DNEP) that the total fund requirement for expanding the transmission network during the 13th Plan period will be ~Rs1.6tn for 400kv+ transmission systems and Rs1tn for 200kv and below transmission systems, which would be entirely in the Intra-STS segment. On a thumb rule basis, ~55-60% of the T&D expenditure is for transmission lines, while ~40-45% of the orders will be for sub-stations and equipment (like transformers, reactors, insulators, conductors, HVDC etc) and new high technology products (like SVC and STATCOM). The total opportunity for transmission line players would be ~Rs1.4tn over the next 5 years while the sub-station segment will offer opportunities worth Rs1.2tn. Over 60% of the total spend is likely to come from states with ~Rs1tn of spending in inter regional grid capacity, Rs1.3tn in intra-regional grid capacity and Rs300bn in distribution (sub 220KV) systems. In terms of Inter-regional grid capacity, India is expected to add ~46GW during the 5-year period from FY17-22. At the end of FY17, PGCIL has a CWIP of Rs390bn along with a pipeline of Rs1tn, which it expects to be executed over the next 4 years.

Poised to seize opportunities in global T&D market

The total investment required for T&D infrastructure for FY16-25 and for FY26-40 is ~US$.9tn and ~US$5tn, respectively. Of these, India requires ~US$291bn and ~US$566bn for similar periods, respectively (source: World Energy Outlook 2016, International Energy Agency). The huge disparity between demand and supply of power in the MENA and Africa regions would propel the need to augment both generation as well as transmission infrastructure in these regions, resulting in great business opportunities for companies like Skipper. Developed countries are expected to invest in smart grid infrastructure and RE integration - France is planning to invest over US$1bn per year in T&D infrastructure by focusing on integrating RE, while US utilities are likely to invest US$20bn per year in transmission, up from just US$10bn per year back in 2010.

Exhibit 43: Investment in Power Transmission & Distribution (2016-2040) (USD Billion)

Region / Country	2016-2025	2026-2040	Total 2016-2040
Americas	410	619	1029
Europe	373	489	862
East Europe/Eurasia	171	266	437
Asia	1387	2310	3697
South East Asia	221	482	703
Middle East	95	218	313
Africa	202	598	800
Latin America	158	288	446
World Total	2989	5070	8059
India	**291**	**566**	**857**

Source: Company, Emkay Research

Solar structures – promising potential

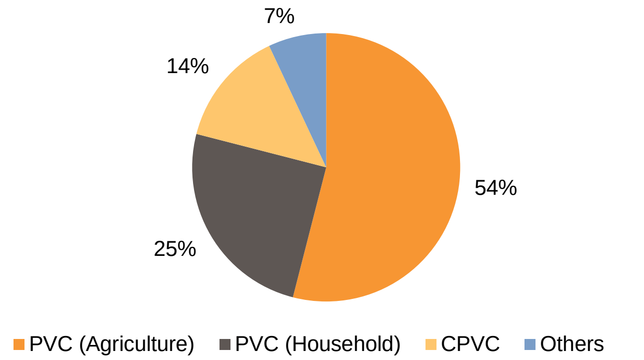
Skipper's expertise in tower manufacturing and transmission EPC could be leveraged to build PV module mounting structures and undertake execution of large scale solar EPC projects. Given that Government of India (GoI) plans to add c.100GW of solar power in the next 5-6 years, we believe there exists huge potential *(opportunity worth ~Rs240bn assuming requirement of 40MT of solar structures/ MW of solar capacity addition)* for companies specializing in solar mounting structures.

Demand for polymer pipes to grow at CAGR of 12-15% to Rs500bn during FY17-22

Steady outlook for domestic polymer pipes

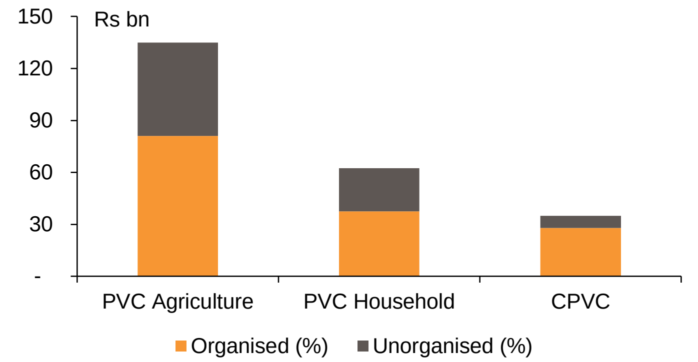
The Indian pipe industry is estimated at 5mn MTPA, of which the Polymer Pipes segment is estimated to be ~35% i.e ~2mn MTPA, valued at ~Rs250bn. The Polymer Pipes segment has grown at a CAGR of 10-12% during the past 5-6 years and is expected to grow at 12-15% p.a over the next 5 years, largely driven by demand from Irrigation and Housing sectors. Among the several variants of Polymer Pipes available in the market, the demand for PVC and CPVC is on the rise due to their affordability, high quality and high durability. PVC pipes are used in a wide range of applications such as water supply, irrigation, tube well and land drainage schemes. Agriculture forms a major share of the PVC pipes & fittings revenues followed by building & construction sector. As compared to the other building product segments, the Polymer Pipes industry remains largely organized. As per industry estimates, the organized industry enjoys 60% market share in the PVC pipes while the CPVC segment, which is purely household, has 80% organized market share. As the CPVC segment poses a significant technological barrier for the unorganized players, it provides an opportunity for branded players to increase their market share. Post the implementation of GST, it is believed that the organized sector is likely to grow faster than the overall industry and capture market share from the unorganized industry.

Exhibit 44: Demand for polymer pipes by type



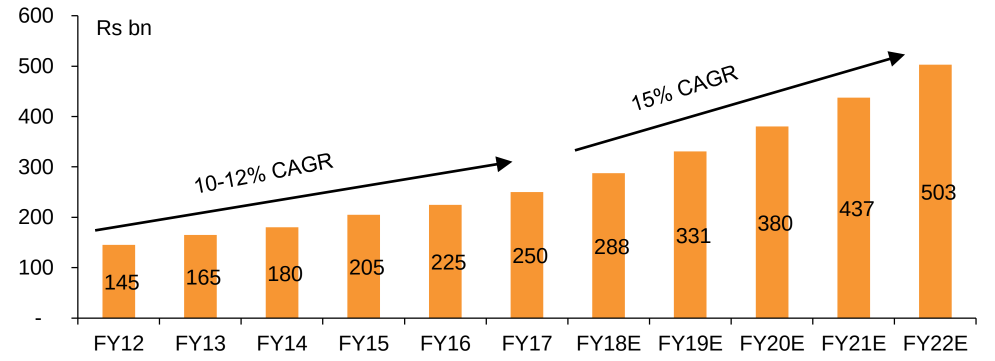
Source: Company, Emkay Research

Exhibit 45: Growing share of organized players



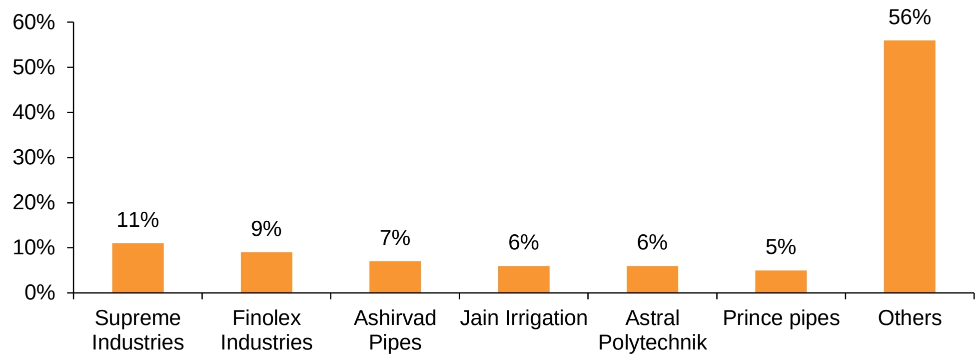
Source: Company, Emkay Research

Exhibit 46: Market size of polymer pipes



Source: Company, Emkay Research

Exhibit 47: Market share of major polymer players



Source: Company, Emkay Research

Irrigation and Housing driving growth in polymer pipes & fittings

The major reasons for the growth of the Polymer Pipes industry in India is the GoI's focus on Irrigation as well as Affordable housing projects, nationwide infrastructural development, and the construction of smart cities. With the GoI allocating higher budget of ~Rs500bn on improving irrigation infrastructure under the Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), the demand for PVC pipes is expected to increase significantly over the next 4-5 years. Similarly, the renewed demand for residential real estate, the GoI's focus on Housing for All (Pradhan Mantri Awas Yojana, wherein it is proposed to build 20 million houses in urban areas and 40 million houses in rural areas during FY2015-22), increased emphasis on sanitation projects (Swachh Bharat Abhiyaan) and Smart Cities mission are cumulatively expected to boost the demand for Indian PVC and CPVC pipes, as the requirement increases for clean hygienic potable water and improved sanitation facilities. Furthermore, there is a significant market for replacement demand coming from the existing residential market, wherein cement based pipes, cast iron based pipes and GI pipes are replaced with PVC and CPVC pipes, as awareness increases about the advantages of the latter over the former – PVC and CPVC pipes are not only economical but they also last 2x longer than GI pipes.

Polymer Pipes - Types and application

- **Unplasticized Poly Vinyl Choride (UPVC) pipes:** UPVC is used for majority of plastic pipes in the world, as it is incredibly resistant to chemical erosion and has smoother inner walls that help to encourage water flow. UPVC pipes also function well in a wide range of temperatures and operating pressures. They are incredibly strong, stiff and cost-effective, and are often used for sewage lines and exterior drainage pipes. These pipes find application in Agriculture and Plumbing for potable water supply and sewerage. Continuous replacement of galvanised iron pipes with these pipes has supported healthy demand growth in the past.
- **Chlorinated Poly Vinyl Chloride (CPVC) pipes:** These pipes are predominantly used in plumbing applications for both hot and cold water as well as for potable water distribution. These pipes are lead-free, fire resistant, corrosion free, long lasting and have the ability to withstand high temperatures. CPVC pipes are at a nascent stage of growth in India and form less than 10% of the overall pipes & fittings volume. However, the segment is the fastest growing segment in the industry.
- **High density Polyethylene (HDPE) pipes:** These pipes find application in sectors such as City Gas Distribution, Irrigation, Sewerage & Drainage and in Chemical & Processing industries. These pipes are being increasingly preferred over cement and metal pipes due to their low maintenance, longevity and durability.
- **Polypropylene random (PPR) pipes:** These pipes are used for a whole host of industrial purposes and are comparatively expensive compared to plastic pipes, which limits their usage.

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	**15,062**	**17,030**	**19,534**	**23,484**	**28,533**
Expenditure	**12,870**	**14,569**	**16,869**	**20,352**	**24,716**
EBITDA	**2,192**	**2,460**	**2,664**	**3,132**	**3,817**
Depreciation	241	315	363	403	443
EBIT	**1,951**	**2,145**	**2,301**	**2,729**	**3,375**
Other Income	52	31	15	15	15
Interest expenses	570	611	558	548	499
PBT	**1,433**	**1,565**	**1,758**	**2,196**	**2,891**
Tax	482	450	527	659	867
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	**951**	**1,115**	**1,231**	**1,538**	**2,023**
Adjusted PAT	**951**	**1,115**	**1,231**	**1,538**	**2,023**

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	102	102	102	102	102
Reserves & surplus	3,713	4,841	6,053	7,572	9,577
Net worth	**3,815**	**4,943**	**6,155**	**7,674**	**9,679**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Loan Funds	**4,504**	**4,159**	**4,500**	**4,000**	**3,750**
Net deferred tax liability	315	391	391	391	391
Total Liabilities	**8,634**	**9,493**	**11,046**	**12,065**	**13,820**
Net block	**3,852**	**4,642**	**5,179**	**5,526**	**5,834**
Investment	**0**	**0**	**0**	**0**	**0**
Current Assets	**7,651**	**8,524**	**10,028**	**11,368**	**13,652**
Cash & bank balance	498	249	603	211	282
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	**3,268**	**3,817**	**4,161**	**4,829**	**5,666**
Net current assets	**4,383**	**4,707**	**5,867**	**6,539**	**7,986**
Misc. exp	0	0	0	0	0
Total Assets	**8,634**	**9,493**	**11,046**	**12,065**	**13,820**

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	**1,381**	**1,534**	**1,743**	**2,181**	**2,875**
Other Non-Cash items	62	20	0	0	0
Chg in working cap	(1,208)	(496)	(807)	(1,064)	(1,376)
Operating Cashflow	**651**	**1,752**	**1,330**	**1,409**	**1,574**
Capital expenditure	(946)	(850)	(756)	(750)	(750)
Free Cash Flow	**(295)**	**903**	**573**	**659**	**824**
Investments	0	0	0	0	0
Other Investing Cash Flow	(25)	21	0	0	0
Investing Cashflow	**(919)**	**(797)**	**(741)**	**(735)**	**(735)**
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	1,073	(346)	341	(500)	(250)
Dividend paid (incl tax)	(160)	(172)	(18)	(18)	(18)
Other Financing Cash Flow	(215)	43	0	0	0
Financing Cashflow	**128**	**(1,087)**	**(235)**	**(1,066)**	**(768)**
Net chg in cash	**(140)**	**(132)**	**353**	**(392)**	**71**
Opening cash position	561	498	249	603	211
Closing cash position	**498**	**249**	**603**	**211**	**282**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	14.6	14.4	13.6	13.3	13.4
EBIT Margin	13.0	12.6	11.8	11.6	11.8
Effective Tax Rate	33.6	28.8	30.0	30.0	30.0
Net Margin	6.3	6.5	6.3	6.5	7.1
ROCE	26.1	24.0	22.6	23.7	26.2
ROE	27.7	25.5	22.2	22.2	23.3
RoIC	28.1	25.5	23.5	24.5	26.6

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	9.3	10.9	12.0	15.0	19.8
CEPS	11.6	14.0	15.6	19.0	24.1
BVPS	37.3	48.3	60.2	75.0	94.6
DPS	0.2	0.2	0.2	0.2	0.2

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	23.0	19.6	17.8	14.2	10.8
P/CEPS	18.4	15.3	13.7	11.3	8.9
P/BV	5.7	4.4	3.6	2.9	2.3
EV / Sales	1.7	1.5	1.3	1.1	0.9
EV / EBITDA	11.8	10.5	9.7	8.2	6.6
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	1.1	0.8	0.6	0.5	0.4
Net Debt/EBIDTA	1.8	1.6	1.5	1.2	0.9
Working Cap Cycle (days)	94.1	95.5	98.4	98.4	98.6

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	14.7	13.1	14.7	20.2	21.5
EBITDA	1.9	12.2	8.3	17.6	21.9
EBIT	1.0	9.9	7.3	18.6	23.7
PAT	6.7	17.3	10.4	24.9	31.6

Quarterly (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Revenue	2,844	4,013	4,306	5,837	3,988
EBITDA	407	541	570	912	516
EBITDA Margin (%)	**14.3**	**13.5**	**13.2**	**15.6**	**12.9**
PAT	122	226	224	528	160
EPS (Rs)	**1.2**	**2.2**	**2.2**	**5.2**	**1.6**

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoters	72.4	72.4	72.4	70.4	70.4
FIIs	0.2	1.5	1.5	1.5	2.0
DIIs	2.9	3.1	6.9	10.8	11.0
Public and Others	24.5	23.0	19.2	17.2	16.5

Source: Capitaline

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:
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