

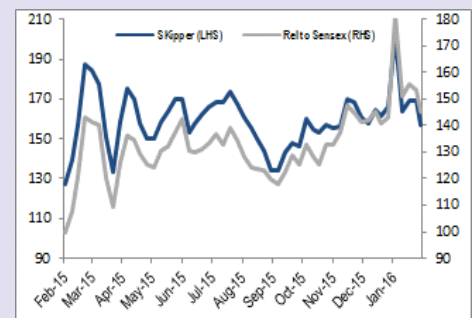
## Skipper Limited

BSE SENSEX 24223	S&P CNX 7362	CMP: INR156	TP: INR205	BUY							
Shares O/s (cr)	10.2	<b>YEAR</b>	<b>SALES</b>	<b>A.PAT</b>	<b>A.EPS</b>	<b>A.EPS</b>	<b>PE</b>	<b>P/BV</b>	<b>EV/</b>	<b>DIV. YLD</b>	<b>ROCE</b>
52-W H/L Range (INR)	220/117	<b>March</b>	<b>(INRCr)</b>	<b>(INRCr)</b>	<b>(INR)</b>	<b>Gr.(%)</b>	<b>(X)</b>	<b>(X)</b>	<b>EBITDA(X)</b>	<b>(%)</b>	<b>(%)</b>
1/6/12 Month Perfor.	-3/9/3	FY15	1,270	61	6.0	116%	26.1	5.3	10.1	0.8%	24%
Market Cap. (INR cr)	1,591	FY16E	1,549	91	8.9	49%	17.5	4.2	8.5	1.6%	28%
Market Cap. (US\$ m)	245	FY17E	1,861	140	13.7	54%	11.4	3.3	6.6	1.9%	35%

### Results Below estimates on lower than expected Core business sales, lower margins and higher other expenses

- Revenue growth at 15% was muted on account of lower than expected growth in PVC pipes which faces headwinds from falling commodity prices, lower than estimated shipments in the Engineering products space and sharp drop in the now immaterial Infrastructure space. The last segment is now a non-focus area for the company and we expect this business to come-off over the next few quarters.
- Margins have come off by 140bps to 13.5% as PVC (a lower margin business) has seen its proportion rise, Infrastructure space witnessed a drop of INR4cr in EBIT and as Promoter-Directors have increased their take home. This has seen EBITDA rise being restricted to 5%.
- A lower interest outgo has aided profits to grow by 10%.

INRCr	3QFY15	2QFY16	3QFY16	yoy	qoq	FY15	FY16E	yoy
Total Income	323	350	372	15%	6%	1272	1549	22%
Expenditure	275	307	322	17%	5%	1086	1330	22%
EBITDA	48	45	50	5%	11%	186	219	18%
Other Income	1	3	1			43	18	-57%
Interest	17	11	15	-12%	34%	70	56	-20%
Depreciation	5	6	6	19%	6%	22	24	9%
PBT	26	46	29	13%	-38%	136	158	16%
Tax	9	17	10			47	55	16%
P/L of Associates	0	0	0			0	0	
Adj. PAT	17	30	19	10%	-37%	89	103	16%
EBITDA (%)	14.9%	13.0%	13.5%			14.6%	14.2%	
Tax rate (%)	33%	36%	35%			35%	35%	



### Valuation and view

- We await clarity on PGCIL order flows for the industry and order inflows and backlog for the company. The Opacity on the Order flows and Order backlog front will not help valuations to get rerated from the current level. We have reduced our assumptions for revenues for the core Engineering Products segment as orders from PGCIL have got delayed. Also, global volatility in commodities could impact order inflows from the South American region.
- PVC pipes continues to witness strong growth and we would continue this business to drive growth over the next few years. However, as a mix changes in favour of this lower margin business, Investors should be ready for a slide in overall margins. We estimate this business to be 3.5x the FY15 revenue and more like 4x FY15 profits.
- Valuations at 12x FY17E factor in the recent global turbulence and the stock looks juicy enough to BUY from a longer-term perspective.
- Given that earnings are below our estimates and on account of delay in PGCIL orders, we have cut earnings estimates by 15% each for FY16 and FY17E.
- In line with our earnings cut, we have reduced our target to INR 205 (15x FY17E revised earnings) - a near 30% upside from the current levels.

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