

Skipper Ltd.

INDIA | Capital Goods | Visit Note

8 July 2016

Company background:

Skipper Ltd is one of India's largest integrated transmission tower manufacturing companies; it has diversified into PVC pipe manufacturing in FY09. Skipper has shown 18% and 72% CAGR growth in Sales and net profit during FY13-16. The company exited low margin ERW business which resulted in significant margin improvement; the operating margins improved to 13.8% in FY16 against 10% in FY13.

Skipper enjoys highest margins amongst listed peers due to 1) integrated operations: it has 2.2 lakh MTPA hot rolling mill capacity to manufacturer angles 2) logistics advantage: the plants are located in eastern region; close proximity to raw material source and ports helps in reducing freight cost and 3) focus on tower manufacturing over EPC business; as on FY16 only 2% revenue contributed by EPC projects.

Skipper entered into exclusive alliance agreement with Latin America's largest Transmission System Operator (TSO) during FY13 for three years. The tie up contributed USD 190 mn to order book till date. Skipper has order book of Rs. ~Rs. 2430 crs (1.7x FY 16 revenue) as on FY16. Exports constitute 25% of order book and 45% of FY16 revenue

Transmission tower business:

- The company derives 88% of revenue from selling of Transmission towers (They are mainly into supply of towers against competitors' focus on EPC segment). Their major domestic clients are PGCIL, SEBs and other private EPC companies.
- The company enjoys better operating margins (13-14% against 9-11% for competition) due to above mentioned reasons.
- Skipper has manufacturing capacity of 2.2 lakh MTPA for hot rolling mills and 2.0 lakh MTPA for transmission towers as on June 2016.
- Since last two years the company is operating at 90% capacity utilization.
- It will increase the hot rolling mill capacity to ~2.7 lakh MTPA by FY17 which is sufficient to support backward integration of tower manufacturing up to 3.0 lakh MTPA. Skipper plans to add 25 K MTPA (Capex of Rs. 25-30 crores) per year.
- Out of \$190mn exports orders in last 2 years, it has executed orders worth Rs. 600 crs and balance to be executed over next 2 years. The margins and working capital requirement is similar to domestic business.
- The tie up with the Latin America's TSO will come under review in Q3 FY17; the management expects the agreement to continue on account of its strong relationships and manufacturing capabilities.
- The company is also focusing on expanding its presence in new international markets like Nigeria, Africa, Middle East etc, which may help company to maintain the growth in export business.
- Guidance: 15-20% volume growth with EBIDTA margin of 13.5-14%

Polymer (PVC) business:

- The polymer business constituted 10% of total revenue with 11.5% EBIDTA margin in FY16.
- The company has cumulative production capacity of 41K T across 5 locations; West Bengal (15K), Gujarat (10K), Assam (4K), UP (6K) and Telangana (6K).
- It is the largest company in Eastern market with 10% market share and market leader in WB market. The Eastern market contributed 65-70% of polymer business in FY16, which will come down as the company will expand into new geographies.
- Skipper has adopted an asset light model for its polymer business where they identify a location with leased property. The strategy reduces initial investment and also helps the company to start the production within 4-6 months of location identified.
- PVC pipe being a freight sensitive industry, pan India manufacturing facilities (near to end user markets) could be a key competitive advantage for the company.

Not Rated

CMP RS 160

COMPANY DATA

O/S SHARES (MN) :	102.3
MARKET CAP (RS MN) :	16063.7
MARKET CAP (USD MN) :	238.2
52 - WK HI/LO (RS) :	220 / 115
TRADING VOL. 3M (000) :	128.6
PAR VALUE (RS) :	1

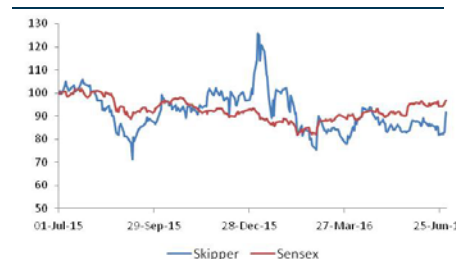
SHARE HOLDING PATTERN, %

PROMOTERS :	72.4
Institutions :	3.4
Centre / State Govt. :	0
Non Institutions :	24.3

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	4.2	13.1	(8.4)
REL TO BSE	8.5	(4.8)	(5.2)

PRICE Vs. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs Mn	FY14	FY15	FY16
Net Sales	10403.9	12702.3	14623.5
EBIDTA	1102.1	2151.6	2192.5
Net Profit	269.1	891.7	951.3
EPS, Rs	2.7	8.7	9.3
PER, x	0	17.5	14.4
EV/EBIDTA, x	3.5	8.3	8.2
P/BV, x	0	5.2	1.1
ROE, %	12.5	33.8	24.9
Debt/Equity	1.9	1.3	1.2

Source: Phillip Capital India Research.

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- The company plans to increase the total capacity to 100K T by FY19; due to its asset light model the company will spend Rs. 8-10K / T against industry average of Rs. 20K /T.
- Agriculture & Plumbing contribution will change to 60:40 from current 75:25, as it will expand into newer geographies. The higher plumbing contribution will also lead to incremental contribution from high margin fittings.
- Skipper has technological tie up with Sekisui, Japan for CPVC compound; it has CPVC capacity of ~2K T (5% of total capacity).
- Guidance: 70% volume growth with EBIDTA margins of 11.5% for FY17.

EPC Project:

- Skipper is not actively looking for EPC projects; it constituted 2% of total revenue in FY16.
- The company has Rs. 200 crs of order book.

Key Concerns:

- Slower than expected order inflow for Transmission tower business in domestic and export markets.
- The PVC segment growth will depend on its market acceptance in newer geographies where they need to compete with established players like Finolex, Supreme, Astral etc.

Outlook and valuation:

We like the company's strategy 1) to focus on manufacturing of towers over EPC and 2) asset light model for growth in polymer business. Skipper enjoys better margin profile and one of the best return ratios in the industry. The management expects volume growth of 15-20% in tower business and ~60-70% in polymer business.

Historically, investments in power T&D have lagged compared to power generation sector; the government intends to make more investment in transmission infrastructure to reduce the capacity constraint. We believe that Skipper is favorably placed in domestic T&D segment. At CMP the stock is available at 17x FY16 earnings of Rs. 9.3 and 8.4x EV / EBIDTA.

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