

## Skipper Ltd

BUY



Asian Markets Securities Pvt. Ltd.

Healthy long term outlook amid short term headwind.....

### Institutional Research

CMP (Rs)	155
Target (Rs)	236

Nifty: 8,769; Sensex: 28,290

### Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FV Rs 2)	102.3
Market Cap (Rs bn)	15.9
52-Week High / Low	168 / 122
3-M Daily Avg. Vol.	1,70,643

### Relative Performance

(%)	1m	3m	12m
SKIPPER	8.5	8.9	(1.8)
NIFTY	6.4	2.6	18.7
Sensex	5.7	2.5	16.5

### Shareholding Pattern

(%)	Jun16	Sep16	Dec16
Promoter	72.4	72.4	72.4
FII	0.2	1.5	1.5
DII	3.0	3.1	4.6
Others	24.5	23.0	21.6

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Skipper Limited (Skipper); reported 3QFY17 results with 15.8% yoy sales growth. The revenue in PVC products increase by 26.6% yoy, whereas engineering segment revenue grew by 9.1% yoy with similar volume growth. Adjusted PAT stood at Rs 223mn up 19.5% yoy. Management guided a ~15-20% revenue growth for FY17. Order book stand at 20.5bn as on 3QFY17 with 1.4x book-to-bill. Further the bidding pipeline continues to be strong. Company is seeing some impact of demonetisation on PVC products sales both in Q3 as well as Q4FY17. We revise our earnings estimates downwards for FY17E by 18.0% and FY18E by 16.7%; factoring lower revenue growth and margins; due to demonization and lower export order incentive. We arrived at a revised EPS of Rs 9.4 in FY17E, Rs 12.5 in FY18E and introduce FY19E earnings estimate at Rs 15.7. Given the strong business model, healthy EBITDA margins, expansion in PVC segment, and excellent macro environment in power T&D space; we remain positive on the business. We maintain our BUY rating with a TP of Rs 236, based on 15x PER of FY19E EPS.

**3QFY17 reported strong results with Engineering segment EBIT margin of 13.1%:** Revenue grew at 15.8% yoy to Rs4.3bn, on the back of strong growth in PVC and infra project despite demonetisation impact. whereas PVC segment revenue grew by 26.6% yoy led by pan India presence. Engineering product segment EBIT margin remained healthy at 13.1%, owing to higher domestic sales. Adjusted PAT came in higher at Rs 223mn registering a growth of 19.5% yoy. Infrastructure segment revenue grew healthy at 258.3% yoy to Rs265mn with a healthy EBITM of 13.4%.

**9MFY17** shows results with 16.5% yoy sales growth, Engineering Products segment reported 11.4% yoy growth, PVC products segment reported 32.8% yoy growth and Infrastructure Projects segment reported 154.2% yoy growth. EBITM remained healthy at 13.8% for Engineering products and 13.3 in infra project. Whereas plastic products EBITM declined to 8.4% due to demonetisation impact.

**Order book declined YTD but has strong pipeline to support revenues during FY16-FY19:** Skipper has current order book of over Rs20.3bn, amounting to a book-to-bill of 1.4x FY16 revenue. However the company has bid for orders worth Rs11bn and further bigging for Rs5-6bn worth of orders by march. We expect healthy order inflow from PGCL, SEB tenders and from International region will provide a healthy growth visibility in next few months.

**Introduces FY19 estimates with EPS of Rs 12.5 and revised FY17 & FY18 estimates downwards:** We have reduced our FY17E and FY18E EPS by 18% and 16.7% respectively to factor in lower revenues and EBITDAM owing to demonetisation and lower export revenue. We have factored in revenue CAGR of 16.8% during FY16-19E. The management guided revenue growth of 15-20% in FY17E.

**Capacity expansion on track:** Skipper will expand its PVC capacity to 51,000 TPA from current 41,000TPA during FY17E; by adding HDPE pipe manufacturing capacity of 3000TPA, Overhead Tanks capacity of 1200TPA and additional CPVC capacity of 7000TPA. The total capex along with tower capacity of 30,000 TPA would be Rs770 mn. Management guided the new capacity to come upstream by March'17. We have factored in sales volume of 28,700 TPA in FY17E and 36,900 TPA in FY18E.

**Outlook and Valuations:** We estimate the revenue and Adj PAT CAGR of 16.8% and 24.1% during FY16-19E. Return ratios to improve in FY19E with ROCE at 25.6% and ROE at 25.7%. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, opportunity in exports, significant improvement in EBITDAM due to restructuring of operations, benefits of backwards integration, 4x expansion in PVC segment, strong return ratios, healthy growth and young management team; we believe SKIPPER has a strong business prospects. We maintain our BUY rating and a TP of Rs236 based on 15x PER of FY19E EPS. At CMP the stock is trading at 12.4x FY18E and 9.9x FY19E.

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E	Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
Sales	12,702	14,624	17,054	19,906	23,278	EBITDAM (%)	13.6	13.5	13.7	13.9	13.9
yoy (%)	22.0	15.1	16.6	16.7	16.9	NPM (%)	5.4	5.6	5.6	6.4	6.9
EBITDA	1,731	2,011	2,333	2,757	3,236	PER (x)	17.8	16.7	16.5	12.4	9.9
yoy (%)	57.1	16.2	16.0	18.2	17.4	P/BV (x)	5.2	4.2	3.5	2.8	2.3
Adjusted PAT	682	840	958	1,281	1,607	EV/Sales (x)	1.5	1.3	1.2	1.0	0.9
yoy (%)	231.4	23.1	14.1	33.7	25.4	EV/ EBITDA (x)	11.0	10.0	8.7	7.3	6.2
Equity	102	102	102	102	102	RoACE (%)	21.7	22.9	22.1	23.7	25.6
EPS	6.7	8.2	9.4	12.5	15.7	RoANW (%)	33.3	27.8	22.8	25.2	25.7

Source: Company, AMSEC Research

**Exhibit 3: Skipper Ltd: 3Q FY17 quarterly results**

Y/E March (Rs mn)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy(%)	qoq (%)	9MFY16	9MFY17	yoy (%)
Net Sales	3,616	5,227	2,826	4,011	4,302	<b>19.0</b>	<b>7.2</b>	9,396	11,139	18.5
Other Operational Income	102	70	18	1	4	(95.7)	238.7	187	24	(87.4)
<b>Total Sales</b>	<b>3,718</b>	<b>5,297</b>	<b>2,844</b>	<b>4,013</b>	<b>4,306</b>	<b>15.8</b>	<b>7.3</b>	<b>9,583</b>	<b>11,163</b>	<b>16.5</b>
Stock Adjustment	28	820	(169)	(491)	(105)	(470.5)	(78.7)	(873)	(765)	(12.4)
Cons. of Raw Materials	2,294	2,593	1,940	3,019	2,947	28.5	(2.4)	6,945	7,906	13.8
Employee Cost	122	152	155	192	193	58.4	0.6	347	539	55.3
Other Expenditure	779	998	511	752	700	(10.1)	(6.9)	1,887	1,964	4.0
Total Expenditure	3,223	4,563	2,437	3,472	3,736	15.9	7.6	8,306	9,644	16.1
<b>EBITDA</b>	<b>495</b>	<b>734</b>	<b>407</b>	<b>541</b>	<b>570</b>	<b>15.2</b>	<b>5.5</b>	<b>1,277</b>	<b>1,518</b>	<b>18.9</b>
Add: Other Income	9	11	8	7	8	(7.1)	9.0	41	23	(43.4)
Interest	153	155	160	150	177	15.5	17.7	415	487	17.5
Depreciation	61	63	67	72	76	24.1	6.1	178	215	21.0
Excp. Item	-	-	15	15	-	-	(100.0)	181	30	(83.7)
<b>Profit Before Tax</b>	<b>289</b>	<b>526</b>	<b>203</b>	<b>341</b>	<b>325</b>	<b>12.6</b>	<b>(4.4)</b>	<b>907</b>	<b>868</b>	<b>(4.2)</b>
Provision for Taxation	102	165	65	114	102	(0.2)	(10.7)	316	281	(11.1)
<b>PAT</b>	<b>187</b>	<b>361</b>	<b>137</b>	<b>226</b>	<b>223</b>	<b>19.5</b>	<b>(1.3)</b>	<b>590</b>	<b>587</b>	<b>(0.5)</b>
<b>Adj Net Profit</b>	<b>187</b>	<b>361</b>	<b>127</b>	<b>217</b>	<b>223</b>	<b>19.5</b>	<b>3.1</b>	<b>472</b>	<b>567</b>	<b>20.1</b>
Equity Capital (FV Rs 1)	102	102	102	102	102			102	102	
<b>Basic EPS (Rs)</b>	<b>1.8</b>	<b>3.5</b>	<b>1.3</b>	<b>2.2</b>	<b>2.2</b>			<b>5.8</b>	<b>5.8</b>	
<b>Adjusted EPS (In Rs)</b>	<b>1.8</b>	<b>3.5</b>	<b>1.2</b>	<b>2.1</b>	<b>2.2</b>			<b>4.6</b>	<b>5.6</b>	
EBITDA (%)	13.3	13.9	14.3	13.5	13.2	(7bp)	(23bp)	13.3	13.6	28bp
PAT (%)	5.0	6.8	4.5	5.4	5.2	16bp	(21bp)	4.9	5.1	17bp
Tax / PBT (%)	35.3	31.4	32.3	33.5	31.3			34.9	32.4	
Raw Mat. / Net Sales (%)	62.5	64.4	62.3	63.0	66.0	356bp	302bp	63.4	64.0	62bp

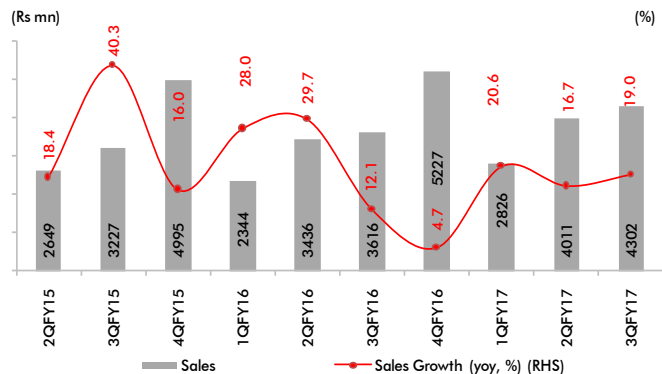
Source: Company, AMSEC Research

**Exhibit 4: Skipper Ltd: 3Q FY17 Segmental finance**

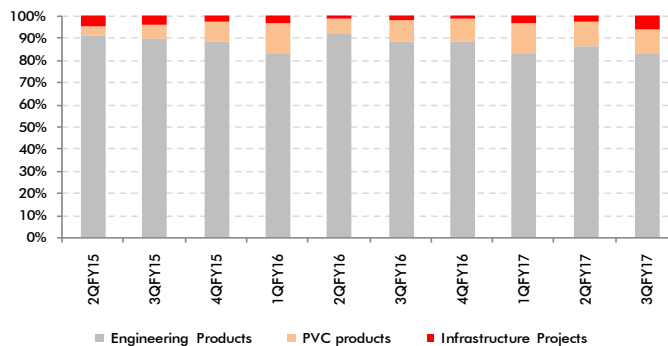
Y/E March(Rs mn)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy (%)	qoq (%)	9MFY16	9MFY17	yoy%
<b>Segment Revenue</b>										
Engineering Products	3272	4659	2358	3450	3571	9.1	3.5	8420	9379	11.4
PVC products	371	558	378	437	470	26.6	7.7	968	1286	32.8
Infrastructure Projects	74	81	108	125	265	258.3	111.2	196	498	154.2
<b>Total Segment Revenue</b>	<b>3718</b>	<b>5297</b>	<b>2844</b>	<b>4013</b>	<b>4306</b>	<b>15.8</b>	<b>7.3</b>	<b>9583</b>	<b>11163</b>	<b>16.5</b>
<b>Segment Results</b>										
Engineering Products	481	675	360	469	466	(3.1)	(0.6)	1207	1295	7.3
PVC products	38	55	36	39	32	(14.5)	(17.5)	110	108	(2.2)
Infrastructure Projects	14	4	14	17	35	151.7	114.2	38	66	73.4
<b>Total</b>	<b>533</b>	<b>734</b>	<b>410</b>	<b>525</b>	<b>534</b>	<b>0.1</b>	<b>1.7</b>	<b>1355</b>	<b>1469</b>	<b>8.4</b>
<b>EBIT Margin</b>										
Engineering Products	14.7	14.5	15.2	13.6	13.1	(165bp)	(54bp)	14.3	13.8	(52bp)
PVC products	10.2	9.9	9.6	8.9	6.9	(330bp)	(209bp)	11.4	8.4	(300bp)
Infrastructure Projects	19.1	5.5	13.4	13.2	13.4	(568bp)	19bp	19.6	13.3	(622bp)
<b>Total EBIT Margin</b>	<b>14.3</b>	<b>13.9</b>	<b>14.4</b>	<b>13.1</b>	<b>12.4</b>	<b>(194bp)</b>	<b>(68bp)</b>	<b>14.1</b>	<b>13.2</b>	<b>(98bp)</b>
<b>ROCE (%)</b>										
Engineering Products	6.8	9.9	4.8	7.1	5.8	(105bp)	(130bp)	17.1	16.0	(106bp)
PVC products	4.0	4.7	2.7	2.2	1.7	(234bp)	(52bp)	11.8	5.7	(612bp)
Infrastructure Projects	3.7	1.4	4.0	4.3	6.4	272bp	210bp	9.9	11.9	200bp
<b>Total ROCE</b>	<b>6.4</b>	<b>8.9</b>	<b>4.5</b>	<b>6.0</b>	<b>5.1</b>	<b>(130bp)</b>	<b>(91bp)</b>	<b>16.2</b>	<b>13.9</b>	<b>(223bp)</b>

Source: Company, AMSEC Research; Note: Engineering products segment financials are after removing for forex gains on fwd contracts.

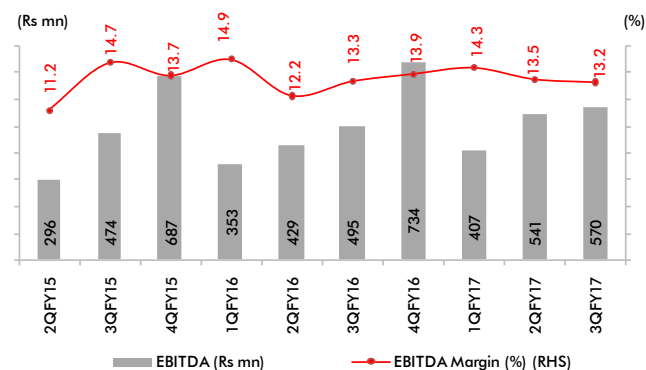
**Exhibit 5: Quarterly Revenue Trend**



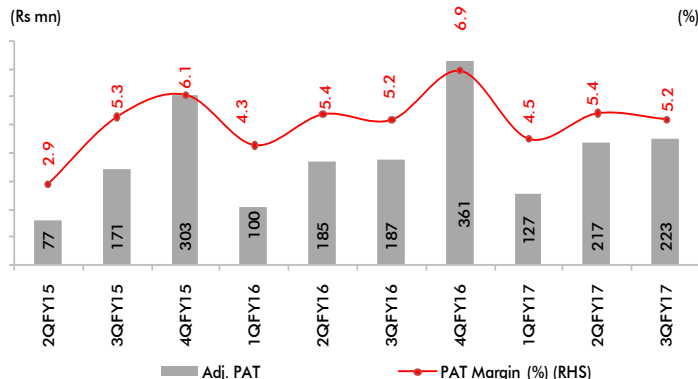
**Exhibit 6: Quarterly revenue breakdown (%)**



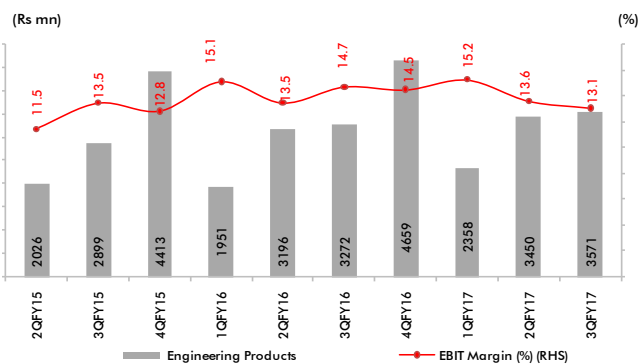
**Exhibit 7: Quarterly EBITDA Trend**



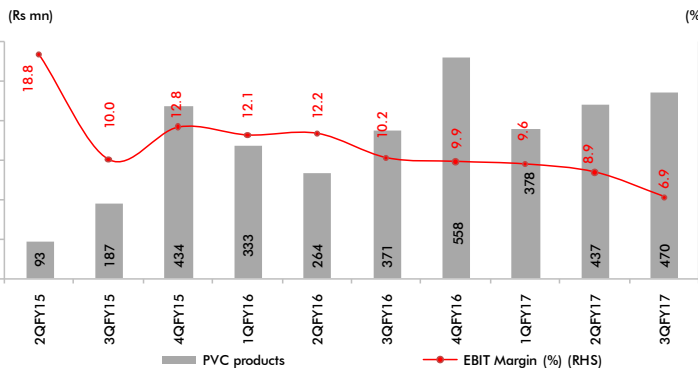
**Exhibit 8: Quarterly PAT Trend**



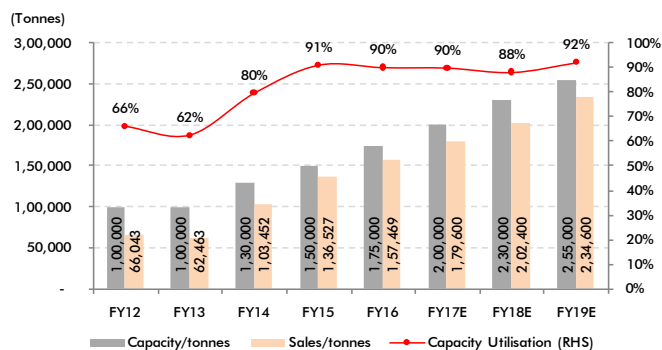
**Exhibit 9: Quarterly Engineering Products trend**



**Exhibit 10: Quarterly PVC products trend**



**Exhibit 11: Capacity & Sales volumes - TLT**



**Exhibit 12: Change in Estimates**

(Rs mn)	Old Estimates		Revised Estimates		% Change		Introducing
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY19E
Revenue	18,300	22379	17,054	19906	(6.8)	(11.0)	23278
EBITDA	2,617	3211	2,333	2757	(10.8)	(14.1)	3236
Adj. PAT	1,169	1537	958	1281	(18.0)	(16.7)	1607
EPS (Rs)	11.4	15.0	9.4	12.5	(18.0)	(16.7)	15.7
PT (Rs)		225					236
Rating		BUY					BUY

Source: AMSEC Research

**Financials (Consolidated)****(Rs mn)**

<b>Profit &amp; Loss Account</b>						<b>Cash Flow Statement</b>					
Particulars	FY15	FY16	FY17E	FY18E	FY19E	Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net sales	12,702	14,624	17,054	19,906	23,278	PBT	1,366	1,433	1,409	1,856	2,328
Other operating income	6	257	-	-	-	Non-cash adjustments	203	189	267	315	353
Consumption of materials	8,797	9,485	11,597	13,536	15,829	Changes in working capital	187	(1,059)	(613)	(869)	(1,090)
Staff Expenses	341	500	512	577	698	Interest Paid	583	570	658	586	554
Other operating expenses	1,838	2,885	2,613	3,036	3,515	Tax Paid & Other Adj	(449)	(439)	(451)	(576)	(722)
Total Expenditure	10,976	12,870	14,721	17,149	20,042	<b>Cashflow from operations</b>	<b>1,889</b>	<b>695</b>	<b>1,269</b>	<b>1,313</b>	<b>1,424</b>
<b>EBITDA</b>	<b>1,731</b>	<b>2,011</b>	<b>2,333</b>	<b>2,757</b>	<b>3,236</b>	Capital exp. & Advances	(304)	(926)	(701)	(300)	(500)
Depreciation	220	241	300	345	373	Change in investments	-	-	-	-	-
<b>Operating profit</b>	<b>1,512</b>	<b>1,770</b>	<b>2,033</b>	<b>2,412</b>	<b>2,863</b>	Other investing cashflow	17	52	33	30	20
Other income	17	52	33	30	20	<b>Cashflow from investing</b>	<b>(287)</b>	<b>(874)</b>	<b>(668)</b>	<b>(270)</b>	<b>(480)</b>
<b>EBIT</b>	<b>1,528</b>	<b>1,822</b>	<b>2,066</b>	<b>2,442</b>	<b>2,883</b>	Issue of equity	0	-	-	-	-
Interest	583	570	658	586	554	Issue/repay debt	(566)	853	300	(200)	(200)
Exceptional items	(420)	(181)	-	-	-	Interest Paid	(583)	(570)	(658)	(586)	(554)
<b>Profit before tax</b>	<b>1,366</b>	<b>1,433</b>	<b>1,409</b>	<b>1,856</b>	<b>2,328</b>	Dividends paid	(156)	(168)	(192)	(263)	(311)
Tax	474	482	451	576	722	Other financing cashflow	-	-	-	-	-
Minority interest	-	-	-	-	-	<b>Cashflow from financing</b>	<b>(1,305)</b>	<b>116</b>	<b>(549)</b>	<b>(1,049)</b>	<b>(1,066)</b>
<b>Reported net profit</b>	<b>892</b>	<b>951</b>	<b>958</b>	<b>1,281</b>	<b>1,607</b>	<b>Change in cash &amp; cash</b>	<b>298</b>	<b>(63)</b>	<b>53</b>	<b>(6)</b>	<b>(122)</b>
<b>Adjusted net profit</b>	<b>682</b>	<b>840</b>	<b>958</b>	<b>1,281</b>	<b>1,607</b>	<b>Opening cash &amp; cash e</b>	<b>263</b>	<b>561</b>	<b>498</b>	<b>551</b>	<b>544</b>
Share O/s mn	102	102	102	102	102	<b>Closing cash &amp; cash eq</b>	<b>561</b>	<b>498</b>	<b>551</b>	<b>544</b>	<b>422</b>
EPS Rs (adjusted)	6.7	8.2	9.4	12.5	15.7	<b>Free cash flow to firm</b>	<b>1,586</b>	<b>(230)</b>	<b>569</b>	<b>1,013</b>	<b>924</b>

<b>Balance Sheet</b>						<b>Ratios</b>					
Particulars	FY15	FY16	FY17E	FY18E	FY19E	Particulars	FY15	FY16	FY17E	FY18E	FY19E
<b>SOURCES OF FUNDS :</b>						<b>PER SHARE</b>					
Share Capital	102	102	102	102	102	EPS Rs (adjusted)	6.7	8.2	9.4	12.5	15.7
Reserves	2,936	3,713	4,479	5,497	6,792	CEPS Rs	8.8	10.6	12.3	15.9	19.3
Minority Interest	-	-	-	-	-	Book Value Rs	29.7	37.3	44.8	54.7	67.4
<b>Total Shareholders Fund</b>	<b>3,039</b>	<b>3,815</b>	<b>4,582</b>	<b>5,599</b>	<b>6,895</b>	<b>VALUATION</b>					
<b>Non-Current Liabilities</b>	<b>1,974</b>	<b>2,311</b>	<b>2,311</b>	<b>2,311</b>	<b>2,311</b>	EV / Net Sales	1.5	1.3	1.2	1.0	0.9
Long term borrowings	1,707	1,983	1,983	1,983	1,983	EV / EBITDA	11.0	10.0	8.7	7.3	6.2
Deferred tax liability	265	315	315	315	315	P / E Ratio	17.8	16.7	16.5	12.4	9.9
Other long term liabilities	-	-	-	-	-	P / BV Ratio	5.2	4.2	3.5	2.8	2.3
Long-term provisions	2	13	13	13	13	<b>GROWTH YOY%</b>					
<b>Current Liabilities</b>	<b>5,625</b>	<b>5,776</b>	<b>6,602</b>	<b>7,080</b>	<b>7,453</b>	Sales Growth	22.0	15.1	16.6	16.7	16.9
Short term borrowings	1,724	2,419	2,719	2,519	2,319	EBITDA Growth	57.1	16.2	16.0	18.2	17.4
Trade payables	2,415	2,124	2,570	3,000	3,508	Net Profit Growth	231.4	23.1	14.1	33.7	25.4
Other current liabilities	1,277	1,039	1,266	1,507	1,562	Gross Fixed Asset Growth	8.9	13.1	16.5	8.8	8.1
Short term provisions	208	193	47	55	64	<b>PROFITABILITY (%)</b>					
<b>Total Equity &amp; Liabilities</b>	<b>10,637</b>	<b>11,903</b>	<b>13,495</b>	<b>14,991</b>	<b>16,659</b>	Gross Profit/ Net sales	22.5	26.3	24.8	24.9	24.9
<b>APPLICATION OF FUNDS :</b>						EBITDA / Net Sales	13.6	13.5	13.7	13.9	13.9
<b>Non Current Assets</b>	<b>3,578</b>	<b>4,274</b>	<b>4,674</b>	<b>4,630</b>	<b>4,757</b>	EBIT / Net sales	11.9	12.1	11.9	12.1	12.3
Gross block (Total)	4,295	4,856	5,656	6,156	6,656	NPM / Total income	5.4	5.6	5.6	6.4	6.9
Less : accumulated depre	782	1,004	1,303	1,648	2,021	Raw Material/Net Sales	69.2	63.7	68.0	68.0	68.0
Net block (Total)	3,513	3,852	4,353	4,508	4,635	Int/PBIT	38.5	32.2	32.3	24.3	19.4
Capital work in progress	35	399	300	100	100	RONW	33.3	27.8	22.8	25.2	25.7
Noncurrent investment	-	-	-	-	-	ROCE	21.7	22.9	22.1	23.7	25.6
Long term loans and advc	-	-	-	-	-	Tax / PBT	50.1	38.5	32.0	31.0	31.0
Other non-current assets	31	22	22	22	22	<b>TURNOVER</b>					
<b>Current Assets</b>	<b>7,059</b>	<b>7,629</b>	<b>8,821</b>	<b>10,361</b>	<b>11,902</b>	Net Working Cycle	87	100	100	102	104
Current investment	-	-	-	-	-	Debtors Velocity (Days)	108	91	93	96	96
Inventories	2,282	2,500	2,944	3,545	4,145	Inventory (Days)	76	71	73	75	75
Sundry debtors	3,758	3,724	4,345	5,236	6,122	Creditors Velocity (Days)	100	82	81	81	81
Cash and bank	561	498	551	544	422	Current Ratio	2.6	3.1	3.1	3.1	3.0
Short loans and advances	458	907	981	1,036	1,212	Quick Ratio	1.8	2.1	2.1	2.0	2.0
Others current assets	-	-	-	-	-	<b>LIQUIDITY</b>					
<b>Total Assets</b>	<b>10,637</b>	<b>11,903</b>	<b>13,495</b>	<b>14,991</b>	<b>16,659</b>	Gross Asset Ratio	3.1	3.3	3.2	3.4	3.6
						Total Asset Ratio	1.3	1.3	1.3	1.4	1.5
						Net Debt-Equity Ratio	1.1	1.1	1.0	0.8	0.6
						Interest Coverage (x)	2.6	3.2	3.1	4.2	5.2
						<b>PAYOUT</b>					
						Payout %	23	20	20	21	19
						Dividend %	130	140	160	220	260
						Yield %	0.8	0.9	0.8	1.5	2.1

Source: Company, AMSEC Research

## Recommendation rationale

<b>Buy:</b> Potential upside of	> +15% (absolute returns)
<b>Accumulate:</b>	> +5 to +15%
<b>Reduce:</b>	+5 to -5%
<b>Sell:</b>	< -5%
<b>Not Rated (NR):</b>	No investment opinion on the stock

## Sector rating

<b>Overweight:</b>	The sector is expected to outperform relative to the Sensex.
<b>Underweight:</b>	The sector is expected to underperform relative to the Sensex.
<b>Neutral:</b>	The sector is expected to perform in line with the Sensex.

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