

Muted ordering, slower execution increased cost leads to tepid growth

For Q2FY19, the revenue grew 1.6% YoY to ₹ 5,239.6mn, grew 9.5% QoQ from ₹ 4787mn. EBITDA declined 43.2% YoY to ₹ 388mn, declined ~13.7% QoQ from ₹ 449.7mn EBITDA margin declined 583bps YoY to 7.4%, declined from 9.4% QoQ. PAT declined 89.3% YoY to ₹ 24.9mn, declined 44.6% QoQ from ₹ 45mn.

The margins declined due to high raw material cost impact of both steel & Zinc on the fixed price contracts primarily for Telecom orders. There was also initial undercutting in margins in Railway supplies to gain market share

Interest cost grew 28.1 % YoY to ₹ 256.5mn due to credit crunch faced by vendors resulting in reduction of trade payables (76 days) and increase in W.C debt by 53% YoY to ₹ 4.5bn The revenue from Engg Products business grew 3.1% YoY to ₹ 4,776mn YoY. Polymer business declined 16.1% YoY to ₹ 359mn while the infrastructure business grew 10.4% YoY to ₹ 104.5mn There was a notional FX loss during the quarter of ₹ 147mn primarily due to export orders from engineering products. Revenue slowdown was due to muted T&D ordering and execution leading to lower utilisation of plant capacities.

The order book as on 30 Sept 2018 was at ₹24,500mn (Fixed order contracts are 30%) with order inflow during Q2FY19 was ₹ 41bn (Q2FY18: ₹43.2bn) for engineering products supply from PGCIL, SEB's, Rail projects & for various supplies across South America & South East Asia.

View: New orders from SEB's and opportunities in rail electrification & telecom towers is expected to support growth. Increase in competition from established players has led to pricing pressure. This coupled with rising material cost leads us to lower our earnings estimates for FY19/FY20 by 22%/27%. We continue our **Sell** rating with TP ₹ 90 (P/E 10x FY20E).

Q2FY19 Result (₹ Mn)

| Particulars | Q2FY19 | Q2FY18 | YoY (%) | Q1FY19 | QoQ (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 5,240 | 5,156 | 1.6 | 4,787 | 9.5 |
| Total Expense | 4,852 | 4,473 | 8.5 | 4,337 | 11.9 |
| EBITDA | 388 | 683 | (43.2) | 450 | (13.7) |
| Depreciation | 97 | 121 | (19.9) | 115 | (16.2) |
| EBIT | 291 | 562 | (48.2) | 335 | (12.9) |
| Other Income | 3 | 3 | 3.4 | 3 | 4.0 |
| Interest | 257 | 200 | 28.1 | 274 | (6.4) |
| EBT | 38 | 365 | (48.2) | 64 | (39.9) |
| Tax | 13 | 133 | (89.9) | 19 | (28.9) |
| RPAT | 25 | 232 | (89.3) | 45 | (44.6) |
| APAT | 25 | 232 | (89.3) | 45 | (44.6) |
| | | | (bps) | | (bps) |
| Gross Margin (%) | 30.7 | 32.9 | (222) | 32.0 | (133) |
| EBITDA Margin (%) | 7.4 | 13.2 | (583) | 9.4 | (199) |
| NPM (%) | 0.5 | 4.5 | (403) | 0.9 | (46) |
| Tax Rate (%) | 34.9 | 36.4 | (152) | 29.5 | 542 |
| EBIT Margin (%) | 5.6 | 10.9 | (534) | 7.0 | (143) |

| | |
|-------------------|-----------|
| CMP | ₹ 95 |
| Target / Downside | ₹ 90 / 6% |
| BSE Sensex | 35,145 |
| NSE Nifty | 10,583 |

Script Details

| | |
|------------------|---------------|
| Equity / FV | ₹ 103mn / ₹ 1 |
| Market Cap | ₹ 10bn |
| | US\$ 134mn |
| 52-week High/Low | ₹ 292/₹ 83 |
| Avg. Volume (no) | 203,896 |
| NSE Symbol | SKIPPER |
| Bloomberg Code | SKIPPER IN |

Shareholding Pattern Sep'18(%)

| | |
|-----------------|------|
| Promoters | 71.4 |
| MF/Banks/FIs | 9.5 |
| FII's | 6.6 |
| Public / Others | 12.5 |

Valuation (x)

| | FY18A | FY19E | FY20E |
|-----------|-------|-------|-------|
| P/E | 8.3 | 11.8 | 10.6 |
| EV/EBITDA | 4.7 | 5.2 | 4.8 |
| ROE (%) | 20.1 | 12.4 | 12.5 |
| RoACE (%) | 15.4 | 11.9 | 11.8 |

Estimates (₹ mn)

| | FY18A | FY19E | FY20E |
|---------|--------|--------|--------|
| Revenue | 21,076 | 21,674 | 23,711 |
| EBITDA | 3,025 | 2,579 | 2,822 |
| PAT | 1,178 | 828 | 920 |
| EPS (₹) | 11.5 | 8.1 | 9.0 |

VP Research: Vinod Chari

Tel: +91 22 40969779

E-mail: vinodc@dolatcapital.com

AVP Research: Jayakanth Kasthuri

Tel: +91 22 40969771

E-mail: jayakanthk@dolatcapital.com

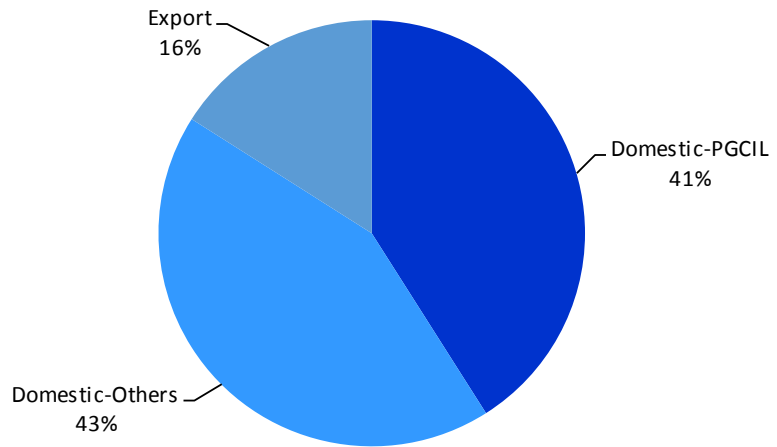
Growing opportunities in Railways, Solar and Telecom

As per the management the TBCBs order is expected to pick up in Q4. 16% of order book is export oriented with execution likely to be in Q3 & Q4. Current share of Non-T&D order book at 15% and likely to be 20% by FY19-end with company's strategy to diversify its product portfolio and tap growing opportunities in Railways, Solar and Telecom (planned 100,000 additional towers worth ₹ 60bn).

Secured telecom tower supplies from LATAM. Received 200 monopoles orders worth ₹ 250mn from SEBs, LATAM and PGIL. Bid for international contracts worth ₹ 18bn. Export opportunities look prospective with INR depreciation.

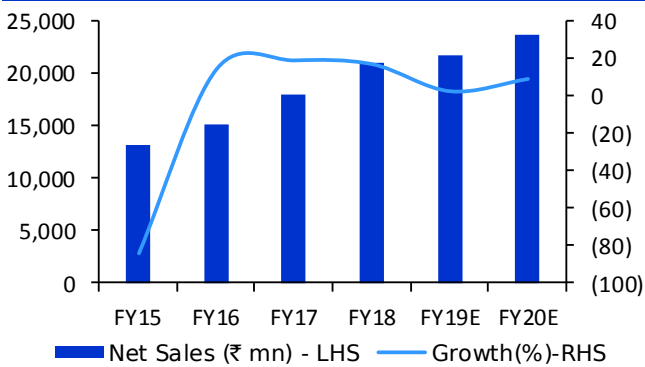
Management maintained revenue guidance of 10-15% with margins for Engg business at 12-13% for FY19. Board approved the demerger of Polymer business division to separate company Skipper Pipes Ltd which as per the management is likely to likely to create value and increase in touch points at the distribution and retail levels to increase market share. There is also shift of focus from Agriculture to Plumbing pipes which are high margins

Exhibit 1: Order Book Mix for 1HFY19



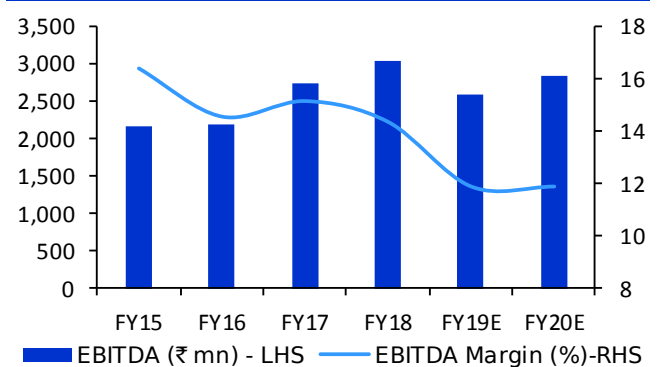
Source: DART, Company

Exhibit 2: Net Sales (₹ mn)



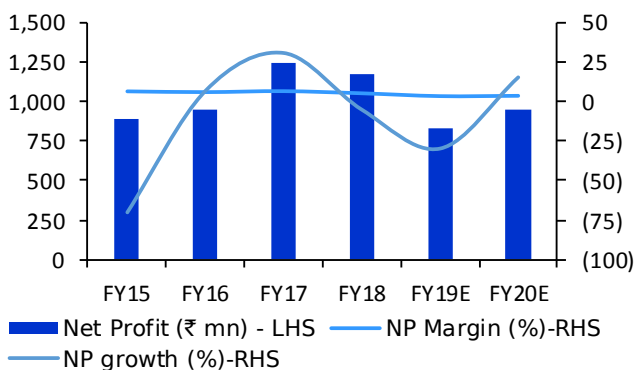
Source: DART, Company

Exhibit 3: EBITDA (₹ mn)



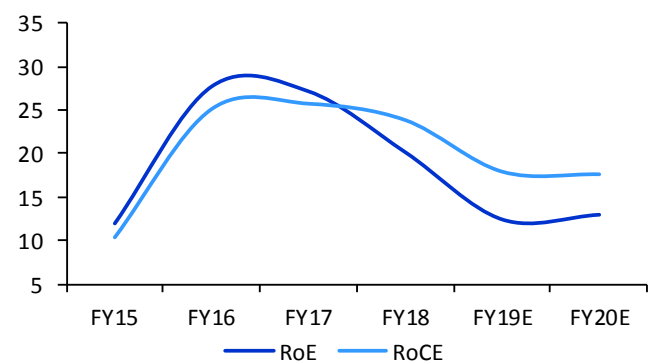
Source: DART, Company

Exhibit 4: Net Profit (₹ mn)



Source: DART, Company

Exhibit 5: RoE & RoCE (%)



Source: DART, Company

Profit and Loss Account

| (₹ Mn) | FY17A | FY18A | FY19E | FY20E |
|----------------------|---------------|---------------|---------------|---------------|
| Revenue | 17,972 | 21,076 | 21,674 | 23,711 |
| Total Expense | 15,250 | 18,051 | 19,095 | 20,890 |
| COGS | 12,234 | 13,585 | 14,522 | 15,887 |
| Employees Cost | 745 | 934 | 997 | 1,091 |
| Other expenses | 2,271 | 3,532 | 3,576 | 3,912 |
| EBIDTA | 2,722 | 3,025 | 2,579 | 2,822 |
| Depreciation | 316 | 459 | 544 | 630 |
| EBIT | 2,406 | 2,566 | 2,036 | 2,192 |
| Interest | 671 | 784 | 906 | 870 |
| Other Income | 32 | 22 | 70 | 30 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| EBT | 1,767 | 1,804 | 1,199 | 1,352 |
| Tax | 387 | 626 | 372 | 433 |
| RPAT | 1,380 | 1,178 | 828 | 920 |
| APAT | 1,380 | 1,178 | 828 | 920 |

Balance Sheet

| (₹ Mn) | FY17A | FY18A | FY19E | FY20E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | |
| Equity Capital | 102 | 103 | 103 | 103 |
| Reserves & Surplus | 5,219 | 6,270 | 6,897 | 7,615 |
| Net Worth | 5,321 | 6,373 | 6,999 | 7,718 |
| Total Debt | 4,184 | 4,663 | 4,400 | 5,000 |
| Net Deferred Tax Liability | 626 | 538 | 538 | 538 |
| Total Capital Employed | 10,131 | 11,574 | 11,938 | 13,256 |

Applications of Funds

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Net Block | 4,968 | 5,209 | 5,265 | 5,285 |
| CWIP | 144 | 16 | 16 | 16 |
| Investments | 164 | 38 | 88 | 138 |
| Current Assets, Loans & Advances | 8,632 | 12,173 | 12,389 | 13,990 |
| Inventories | 3,682 | 5,623 | 5,245 | 5,618 |
| Receivables | 3,722 | 5,164 | 5,226 | 5,912 |
| Cash and Bank Balances | 249 | 176 | 672 | 1,096 |
| Loans and Advances | 979 | 1,210 | 1,247 | 1,364 |
| Less: Current Liabilities & Provisions | 3,778 | 5,861 | 5,821 | 6,173 |
| Payables | 3,773 | 5,859 | 5,819 | 6,171 |
| Other Current Liabilities | 5 | 1 | 1 | 1 |
| Net Current Assets | 4,854 | 6,312 | 6,569 | 7,817 |
| Total Assets | 10,131 | 11,574 | 11,938 | 13,256 |

E – Estimates

Important Ratios

| Particulars | FY17A | FY18A | FY19E | FY20E |
|---|---------|--------|---------|--------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 31.9 | 35.5 | 33.0 | 33.0 |
| EBIDTA Margin | 15.1 | 14.4 | 11.9 | 11.9 |
| EBIT Margin | 13.4 | 12.2 | 9.4 | 9.2 |
| Tax rate | 21.9 | 34.7 | 31.0 | 32.0 |
| Net Profit Margin | 7.7 | 5.6 | 3.8 | 3.9 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 68.1 | 64.5 | 67.0 | 67.0 |
| Employee | 4.1 | 4.4 | 4.6 | 4.6 |
| Other | 12.6 | 16.8 | 16.5 | 16.5 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.8 | 0.7 | 0.6 | 0.6 |
| Interest Coverage | 3.6 | 3.3 | 2.2 | 2.5 |
| Inventory days | 75 | 97 | 88 | 86 |
| Debtors days | 76 | 89 | 88 | 91 |
| Average Cost of Debt | 15.4 | 17.7 | 20.0 | 18.5 |
| Payable days | 77 | 101 | 98 | 95 |
| Working Capital days | 99 | 109 | 111 | 120 |
| FA T/O | 3.6 | 4.0 | 4.1 | 4.5 |
| (D) Measures of Investment | | | | |
| AEPS (₹) | 13.5 | 11.5 | 8.1 | 9.0 |
| CEPS (₹) | 16.5 | 16.0 | 13.4 | 15.1 |
| DPS (₹) | 1.7 | 1.7 | 1.7 | 1.7 |
| Dividend Payout (%) | 12.5 | 14.4 | 20.7 | 18.6 |
| BVPS (₹) | 51.9 | 62.1 | 68.2 | 75.2 |
| RoANW (%) | 30.2 | 20.1 | 12.4 | 12.5 |
| RoACE (%) | 19.9 | 15.4 | 11.9 | 11.8 |
| RoAIC (%) | 26.5 | 24.1 | 18.0 | 18.7 |
| (E) Valuation Ratios | | | | |
| CMP (₹) | 95 | 95 | 95 | 95 |
| P/E | 7.1 | 8.3 | 11.8 | 10.6 |
| Mcap (₹ Mn) | 9,771 | 9,771 | 9,771 | 9,771 |
| MCap/ Sales | 0.5 | 0.5 | 0.5 | 0.4 |
| EV | 13,705 | 14,258 | 13,498 | 13,674 |
| EV/Sales | 0.8 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA | 5.0 | 4.7 | 5.2 | 4.8 |
| P/BV | 1.8 | 1.5 | 1.4 | 1.3 |
| Dividend Yield (%) | 1.8 | 1.7 | 1.8 | 1.8 |
| (F) Growth Rate (%) | | | | |
| Revenue | 19.3 | 17.3 | 2.8 | 9.4 |
| EBITDA | 24.2 | 11.1 | (14.7) | 9.4 |
| EBIT | 23.3 | 6.6 | (20.7) | 7.7 |
| PBT | 23.3 | 2.1 | (33.5) | 12.8 |
| APAT | 45.1 | (14.7) | (29.7) | 11.1 |
| EPS | 45.1 | (14.7) | (29.7) | 11.1 |
| Cash Flow | | | | |
| (₹ Mn) | FY17A | FY18A | FY19E | FY20E |
| CFO | 1,788 | 890 | 2,483 | 1,585 |
| CFI | (1,307) | (409) | (650) | (700) |
| CFF | (1,206) | (504) | (1,371) | (470) |
| FCFF | 615 | 355 | 1,883 | 935 |
| Opening Cash | 498 | 249 | 176 | 672 |
| Closing Cash | 249 | 176 | 672 | 1,096 |

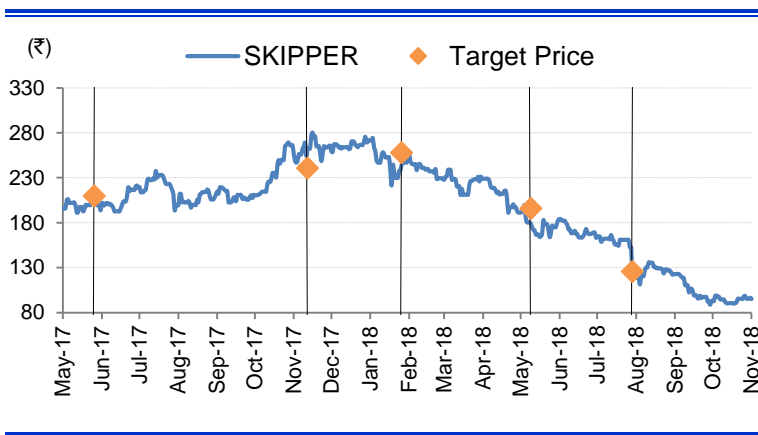
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|-------------------|------------------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

Rating and Target Price History



| Month | Rating | TP (₹) | Price (₹)* |
|--------|--------|--------|------------|
| Jun-17 | Reduce | 210 | 207 |
| Nov-17 | Sell | 241 | 263 |
| Feb-18 | Reduce | 258 | 244 |
| May-18 | Reduce | 196 | 179 |
| Aug-18 | Reduce | 126 | 120 |

*Price as on Recommendation Date

DART Team

| | | | |
|--------------------------|--------------------------|--------------------------------|------------------------|
| Purvag Shah | Managing Director | purvag@dolatcapital.com | +9122 4096 9747 |
| Amit Khurana, CFA | Head of Equities | amit@dolatcapital.com | +9122 4096 9745 |

CONTACT DETAILS

| Equity Sales | Designation | E-mail | Direct Lines |
|------------------|--|------------------------------|-----------------|
| Dinesh Bajaj | VP - Equity Sales | dineshb@dolatcapital.com | +9122 4096 9709 |
| Kartik Sadagopan | VP - Equity Sales | kartiks@dolatcapital.com | +9122 4096 9762 |
| Kapil Yadav | VP - Equity Sales | kapil@dolatcapital.com | +9122 4096 9735 |
| Equity Trading | Designation | E-mail | |
| P. Sridhar | SVP and Head of Sales Trading | sridhar@dolatcapital.com | +9122 4096 9728 |
| Chandrakant Ware | VP - Sales Trading | chandrakant@dolatcapital.com | +9122 4096 9707 |
| Shirish Thakkar | VP - Head Domestic Derivatives Sales Trading | shirisht@dolatcapital.com | +9122 4096 9702 |
| Kartik Mehta | VP - Head Asia Derivatives Sales Trading | kartikm@dolatcapital.com | +9122 4096 9715 |
| Bhavin Mehta | VP - Derivatives Strategist | bhavinm@dolatcapital.com | +9122 4096 9705 |
| Hardik Mehta | Sales Trader | hardikm@dolatcapital.com | +9122 4096 9703 |

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
