Skipper Limited

Skipper: Major low-cost transmission tower producer; building scale in pipes

Notes from a visit to a non-covered company

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Skipper: Major transmission tower player

Skipper (XSJQF, Not Covered, share price Rs141.00) is among the top-three domestic manufacturers of power transmission towers. It has three segments: (1) power transmission towers (90% of FY15 sales); (2) plastic pipes (7%); and (3) power transmission Engineering Procurement and Construction (EPC) projects (3%). We met with management on 25 February 2016 and followed up with calls.

Towers: Backward integration, strategic plant locations

The addressable industry size for Skipper's transmission towers is about Rs80bn annual sales. The top-three names (KEC, Kalpataru and Skipper) account for around 35% share, of which Skipper had nearly 15% as of FY15. The company believes its competitive advantages are: (1) low-cost production due to backward integration and proximity to steel plants; (2) proximity to ports; and (3) agreement for exclusive supply of towers to South America's largest transmission system operator. Skipper has a raw material pass-through clause with its clients, such as Power Grid (about 80% of FY15 sales), resulting in stable EBIT margins.

Plastic pipes: Asset light, pan-India manufacturing reach

Skipper started manufacturing plastic pipes in 2009 for agriculture (75% of FY15 sales) and housing (25% of FY15 sales). The key drivers of sales growth (46% sales CAGR over FY11-15) were: (1) pan-India manufacturing and distribution reach; and (2) high product quality. Skipper increased its PVC pipe capacity by 5x over FY11-15 to 12,500 tons and plans to further increase it to 41,000 tons by 1QFY17.The pre-tax RoCE of the PVC pipe segment was 23% in FY15 due to an asset-light lease model.

Growth, improving cash flow utilized to reduce leverage

Skipper reported 37% PAT CAGR over FY11-15 owing to: (1) 26% sales CAGR over FY11-15; (2) economies of scale at strategic locations; and (3) backward integration in power transmission towers. Cash flow conversion improved in FY14/15 as the working capital cycle declined due to higher trade payables and lower inventory. Skipper utilized free cash flow proceeds to reduce net debt-to-equity from 2.0x in FY13 to 1.1x in FY15.

Efficient capital allocation in competitive industry

In five years, the key sources of funds (operating cash flow: 58%, debt: 33%) have been efficiently allocated by management in capex (44%) and interest paid (46%). It adopted an asset-light model resulting in lower capex to sales ratio of 3% in FY15 vs 16% in FY11.

Corporate governance checks

The senior management positions such as managing director and heads of business segments are held by the promoter family. We note three out of four independent directors on Skipper's board are also independent directors of another company, Century Plyboard. Management remuneration CAGR of 32% may appear high, but is in line with FY10-15 employee expense CAGR of 37%. Auditors have not raised any qualifications. Auditors highlighted taxes due on account of disputes of Rs201mn (32% of FY15 adjusted PAT).The company has regularly taken loans from executive directors at low-interest rates and repaid the loans in 12-24 months.

Refer to important disclosures on page 24 to 25. Analyst Certification on page 23.

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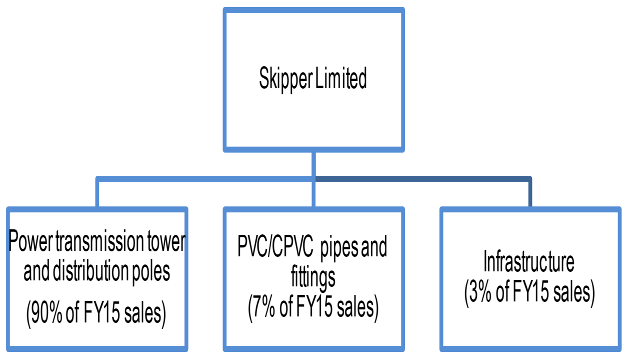
Focus charts

Exhibit 1: Skipper operates in three segments of which transmission towers accounted for 90% of FY15 sales



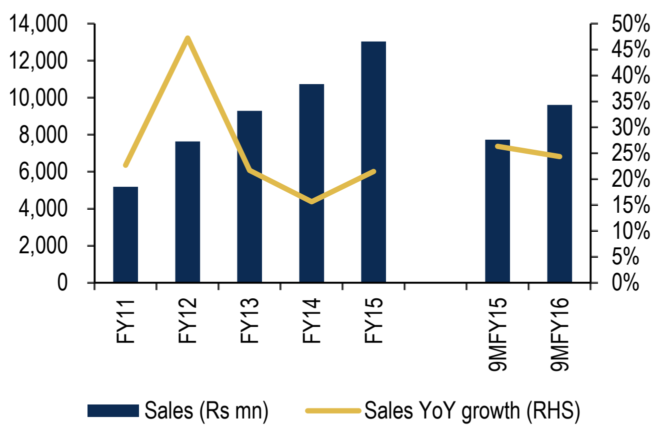
Source: Company data

Table 1: Skipper Limited - Chronology of events

Year	Event
1981	Company incorporated
1990	Started manufacturing telecom towers and masts
2001	Set up LPG cylinder manufacturing unit
2003	Set-up first tube mill
2005	Set up first galvanizing plant
2006	Secured first tower order from PGCIL for 400kV tower
2006	Manufacturing tie-up with Ramboll, Denmark
2009	Commissioned Uluberia unit with first PVC unit and India's first double side tube galvanized iron plant
2010	Set-up strip mill and angle mill for backward integration of tubes and towers
2013	Agreement with South America's largest transmission service operator
2015	Technology tie-up with Sekusui, Japan for CPVC pipes

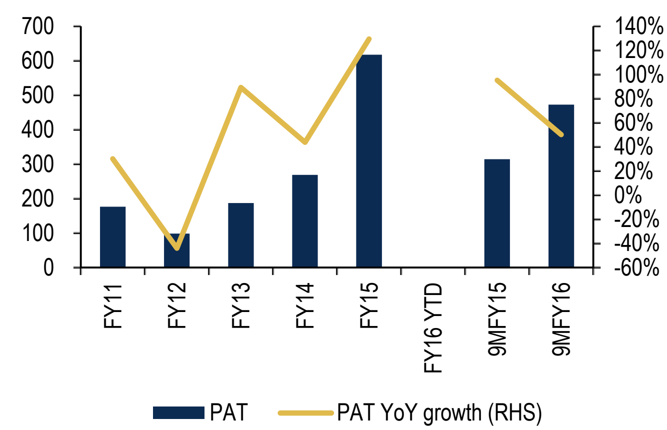
Source: Company data

Chart 1: Skipper reported 26% total sales CAGR over FY11-15...



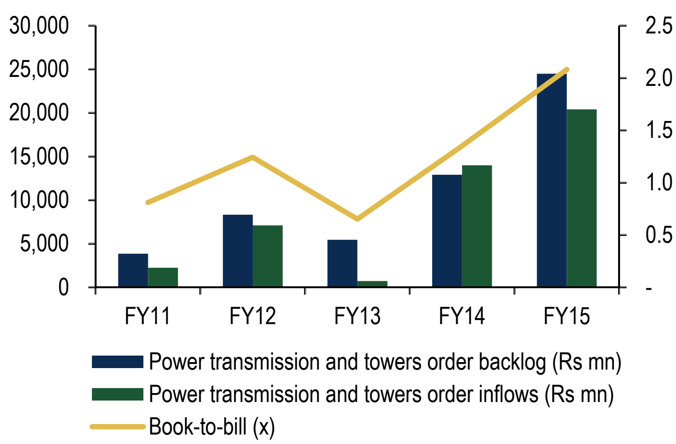
Source: Company data

Chart 2: 37% FY11-15 PAT CAGR led by economies of scale and backward integration in power transmission & tower segment



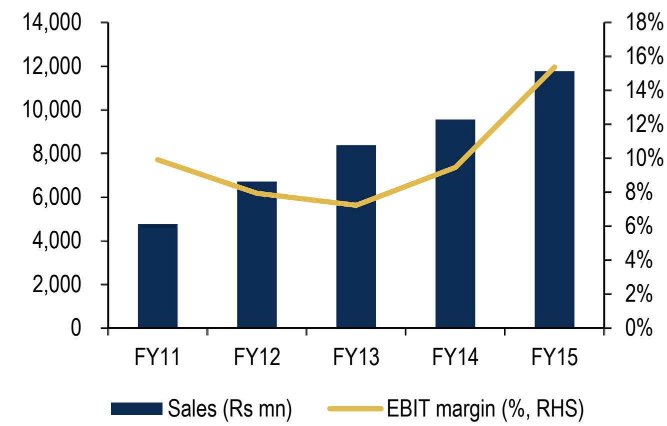
Source: Company data

Chart 3: Sharp uptick in domestic and export order inflow led to increase in transmission tower segment book-to-bill to 2.0x in FY15...



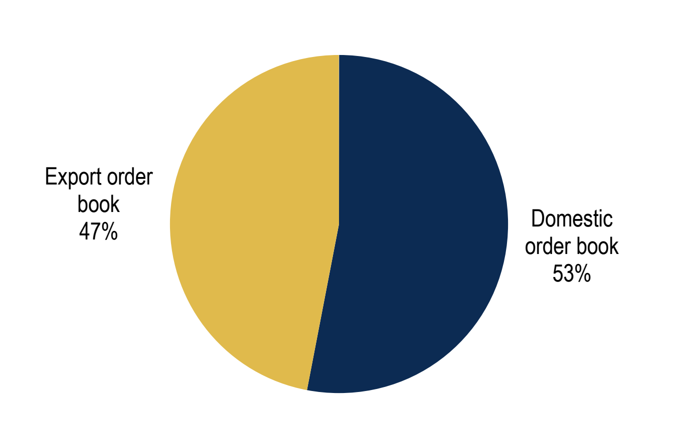
Source: Company data

Chart 4: ...26% sales CAGR over FY11-15 ; EBIT margins increased due to backward integration and proximity to steel plants



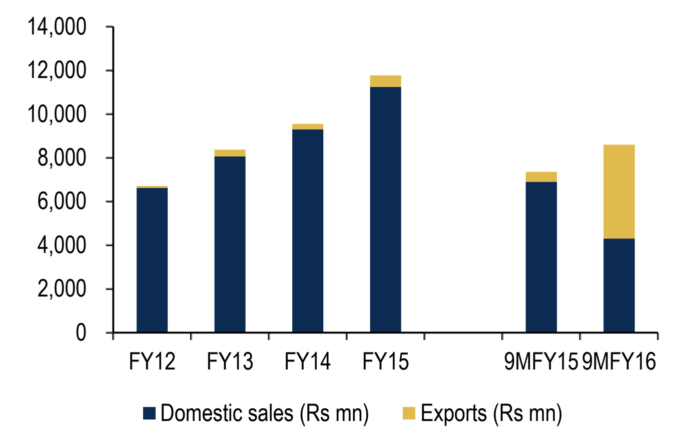
Source: Company data

Chart 5: Sharp increase in share of export orders post tie-up with South America's largest transmission service operator…



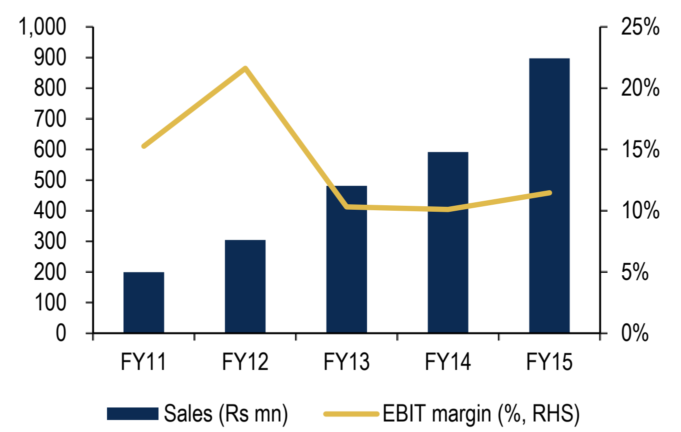
Source: Company data

Chart 6: ….consequently, share of export revenues increased to 50% in 9MFY16



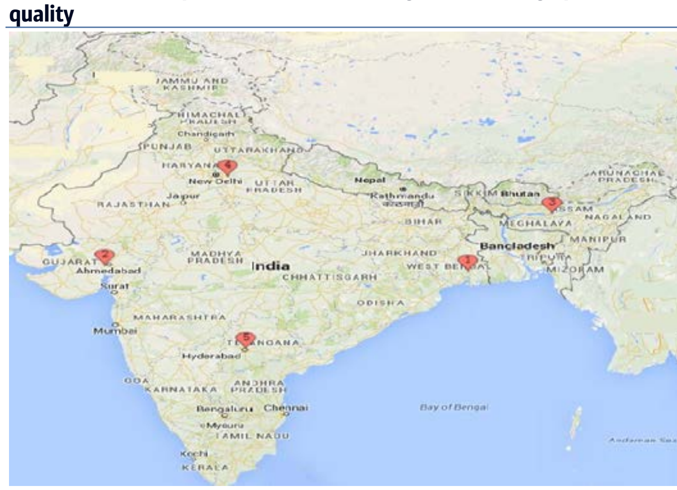
Source: Company data

Chart 7: Skipper reported 46% sales CAGR over FY11-15 (on a low base)in PVC pipes segment…



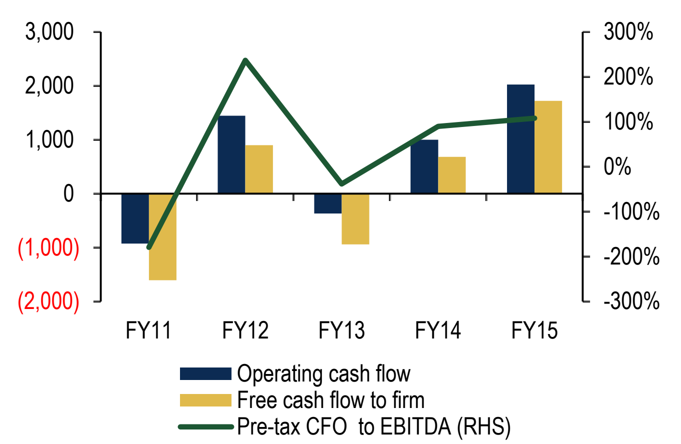
Source: Company data

Exhibit 2: …due to pan-India manufacturing reach and high product quality



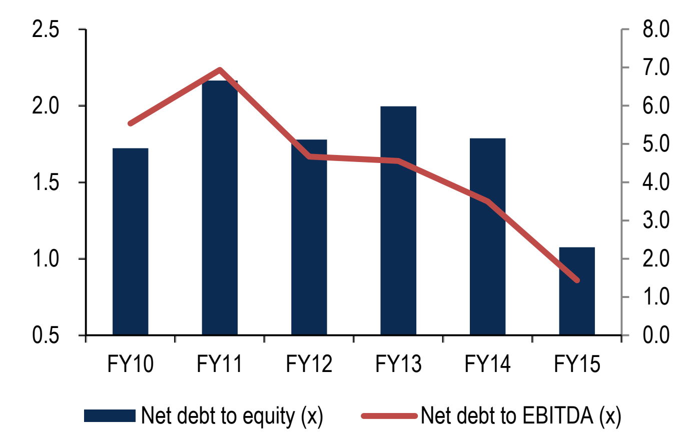
Source: BofA Merrill Lynch Global Research

Chart 8: Decline in working capital requirement led to strong operating cash flow in FY14/FY15…



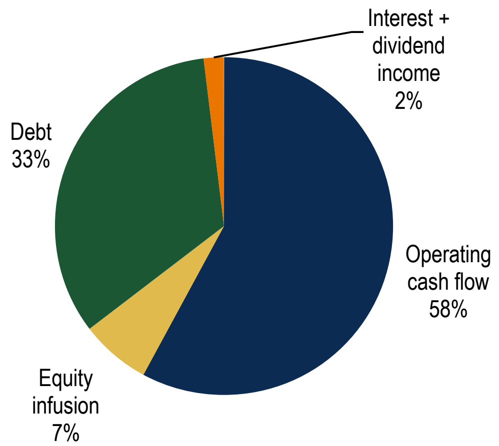
Source: Company data

Chart 9: …which enabled the management to reduce net debt to equity



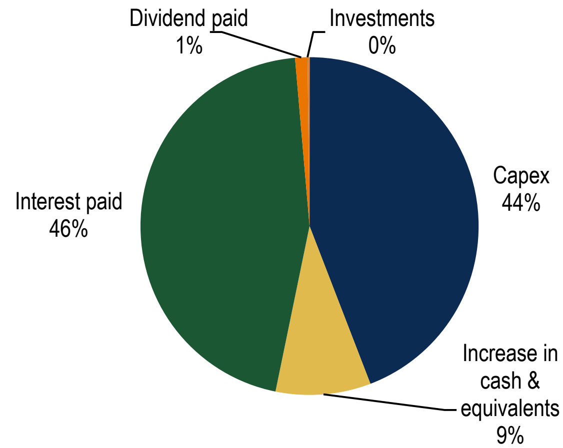
Source: Company data

Chart 10: Sources of funds over FY11-15



Source: Company data

Chart 11: Applications of funds over FY11-15



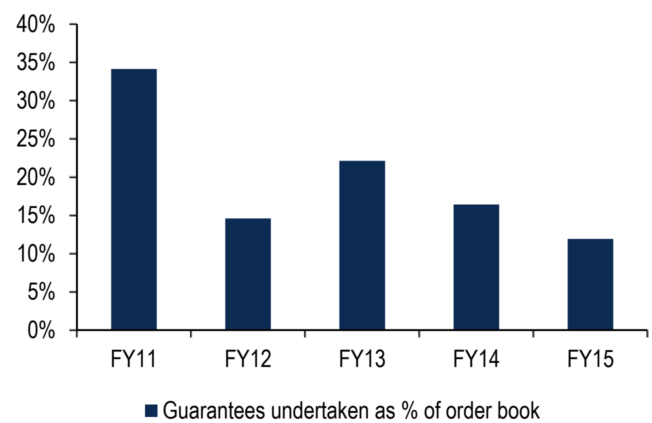
Source: Company data

Table 2: High Contingent liabilities (Rs mn): Performance guarantees for ongoing projects

	FY11	FY12	FY13	FY14	FY15
Claims not acknowledged as debt	45	48	47	0	0
Guarantees undertaken	1,318	1,215	1,208	2,120	2,919
Letter of Credit	775	0	0	0	0
Bills Discounted	317	0	0	0	0
Other Disputed Claims	0	0	0	170	202
Total Contingent Liabilities	**2,455**	**1,263**	**1,255**	**2,291**	**3,121**
as % of net worth	**156%**	**77%**	**61%**	**99%**	**103%**

Source: Company data

Chart 12: Decline in the ratio of guarantees undertaken to order book ratio



Source: Company data

Table 3: Related Party transactions (Rs mn): Loans taken from directors at low interest rates

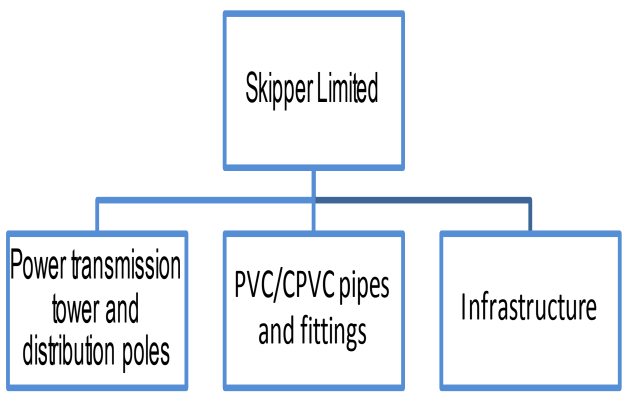
	FY10	FY11	FY12	FY13	FY14	FY15
Rendering or receiving of service	8.9	14.4	17.2	17.2	33.6	37.4
Loan taken	77.9	590.2	655.5	198.2	128.2	137.9
Loan refunded	74.8	468.4	398.3	313.0	136.0	424.7
Advance taken	54.7	37.3	-	-	-	-
Advance given	0.0	-	-	-	-	-
Advance received back	2.4	-	-	-	-	-
Advance taken refunded	43.4	41.7	-	-	-	-
Rent given	0.8	0.8	0.9	0.9	1.1	1.2
Sales and operations	4.7	27.7	-	-	-	-
Payables	37.9	216.3	470.9	352.8	344.7	58.0
Receivable	0.6	5.6	-	-	-	-
Interest paid	1.7	3.9	-	-	-	-
Donation given				2.9	2.3	5.0

Source: Company data

Skipper: Major integrated power transmission tower manufacturer

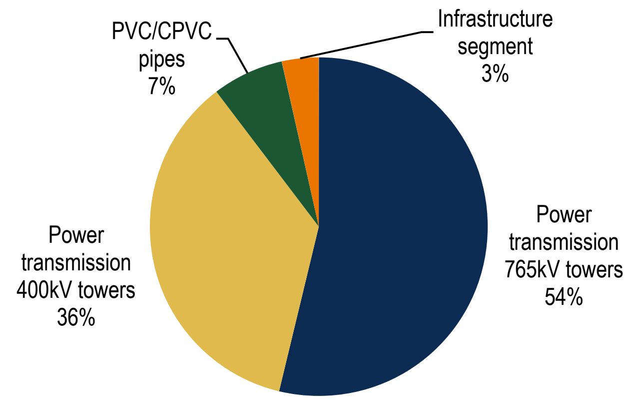
Skipper is one of the world's major power transmission tower manufacturing companies, according to management. It is an integrated transmission tower manufacturer with in-house manufacturing of angle rolling, tower, accessories and fastener manufacturing and EPC line construction. The power transmission segment accounts for 90% of the company's revenue. In addition, it is a leading manufacturer of polyvinyl chloride (PVC) and chlorinated polyvinyl chloride (CPVC) pipes in East India. The company executes power transmission EPC projects in the infrastructure segment (3% of FY15 revenues).

Exhibit 3: Skipper operates in three segments: power transmission towers, PVC pipes and power transmission infrastructure projects…



Source: Company data

Chart 13: …power transmission segment accounts for about 90% of the FY15 revenues



Source: Company data

Company history

Skipper was incorporated in 1981 as a manufacturer of Hamilton poles used in the power distribution sector. The company has evolved from a small power distribution pole manufacturer to an integrated power transmission tower manufacturer. It has a manufacturing tie-up with Ramboll, Denmark, for telecommunication towers and it supplied 800kV transmission towers to Power Grid. The company signed an agreement with South America's largest transmission system operator for the exclusive supply of towers to their projects in 2013.

The company set up its first PVC pipe manufacturing unit in 2009 in Uluberia. It formed a tie-up with Sekusui, Japan for procurement of CPVC resin to manufacture CPVC pipes. The key entry barrier to manufacture CPVC pipes is availability of raw material as CPVC resin is manufactured by selective companies globally such as Sekusui, Lubrizol, Arkema, etc.

Table 4: Skipper Limited - Chronology of events

Year	Event
1981	Company incorporated and commenced manufacturing Hamilton poles
1990	Started manufacturing telecom towers and masts
2001	Set up LPG cylinder manufacturing unit
2003	Set-up first tube mill
2005	Set up first galvanizing plant
2006	Secured first tower order from PGCIL for 400kV tower
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2013	Agreement with South America's largest transmission service operator
2015	Technology tie-up with Sekusui, Japan for CPVC pipes

Source: Company

Deep dive into Skipper's segments

Skipper has three business segments: (1) power transmission towers (90% of FY15 sales), (2) plastic pipes (7%) and (3) power transmission EPC projects (3%).

1. Power transmission towers: Backward integration, strategic location of plants close to steel plants, ports

Management said that Skipper is one of the leading transmission tower manufacturers: among the top three in India and the top 10 globally. It estimates the addressable industry volumes for Skipper's transmission tower segment (above 220kV) is about 1mn tons, equivalent to around Rs80bn annual sales. According to management, the domestic industry reported about 10% CAGR over FY11-15.

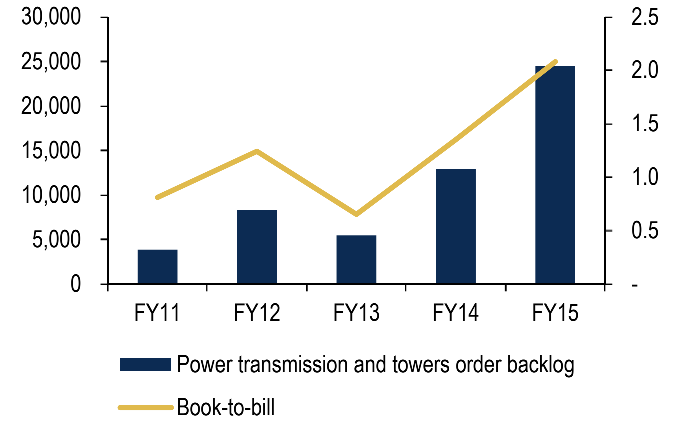
The top-three names (KEC, Kalpataru and Skipper) account for around 35% share, of which Skipper had nearly 15% as of FY15. Its top client is Power Grid, accounting for about 80% of transmission tower revenue. Skipper's transmission tower revenue has increased at 26% CAGR in the last five years.

Skipper is one of the few transmission tower manufacturers to invest in (1) backward integration through rolling mills and (2) horizontal integration by way of introducing fasteners and accessories for transmission towers. Skipper took the following steps in the last five years to: (1) manufacture key components of transmission towers and (2) improve fuel efficiency:

- **FY11:** Commenced production at its rolling mill sector division and rolling mill strip division
- **FY12:** Set up producer gas plant facility at its Uluberia plant, West Bengal to reduce fuel cost
- **FY13:** Set-up the manufacturing facilities for nuts and bolts at its Uluberia plant, West Bengal to increase backward integration
- **FY14:** Started transmission line EPC business to offer a one-stop solution to its customers

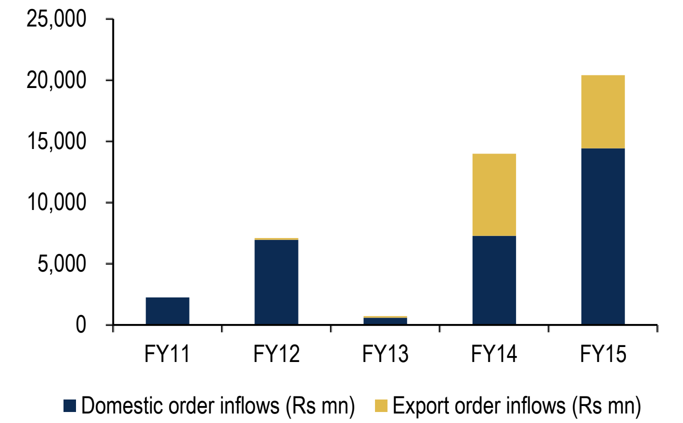
Further, Skipper's plants are strategically located In East India, close to steel plants. Steel accounts for 83% of the total raw material consumed in manufacturing transmission towers. As a result, Skipper's cost of production is lower than that of domestic peers such as KEC and Kalpataru Power. According to management, lower cost of production and a strong track record enabled the company to report 26% sales CAGR over FY11-15.

Chart 14: Skipper's transmission tower segment book-to-bill increased from 0.5x in FY13 to 2.0x in FY15...



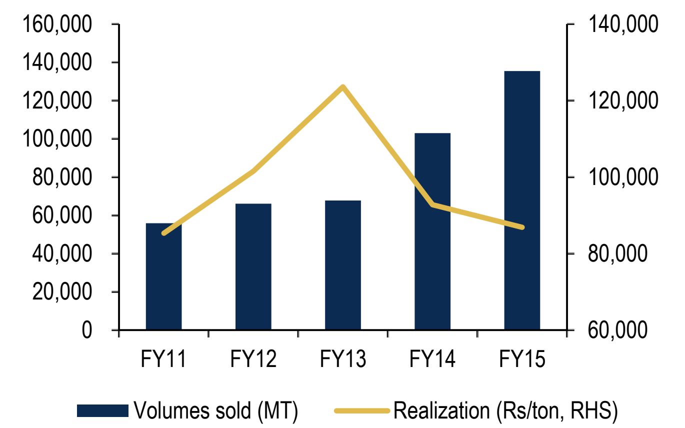
Source: Company data,

Chart 15: ...owing to sharp pick-up in FY14/15 order inflow...



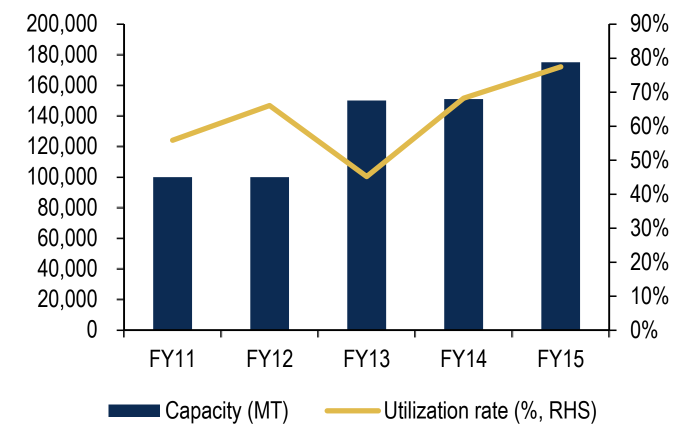
Source: Company data

Chart 16: ...resulting in pick-up in volumes...



Source: Company,data

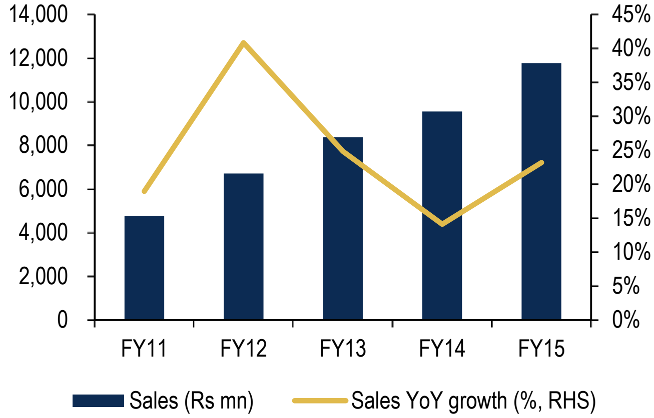
Chart 17: ...higher utilization rate even after capacity expansion ...



Source: Company, data

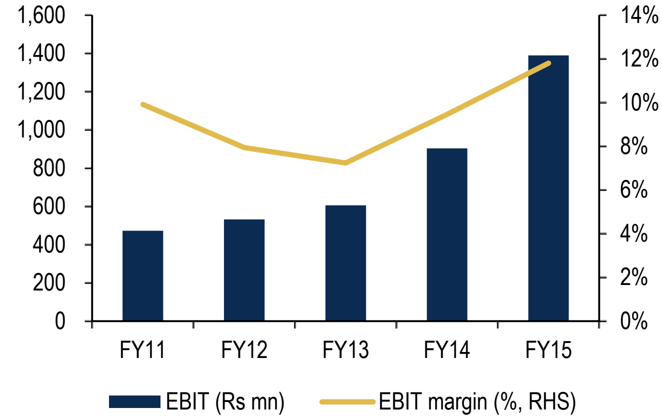
Skipper's adjusted EBITA margins sharply increased from 9.9% in FY11 to 12% (without forex gains) in FY15 owing to a) economies of scale at strategic locations close to the steel manufacturing plants, thereby reducing freight costs and b) backward integration.

Chart 18: ...led to 26% sales CAGR over FY11-15



Source: Company, data

Chart 19: EBIT margin improvement driven by higher economies of scale, backward integration

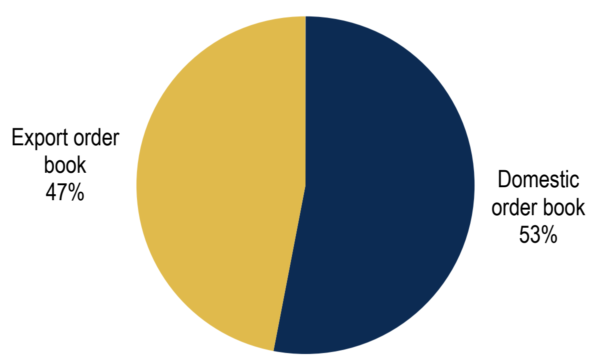


Source: Company data

The company signed an agreement in 2013 with South America's largest transmission system operator for the exclusive supply of towers to their projects. This operator is mainly located in Columbia, Peru and Chile.

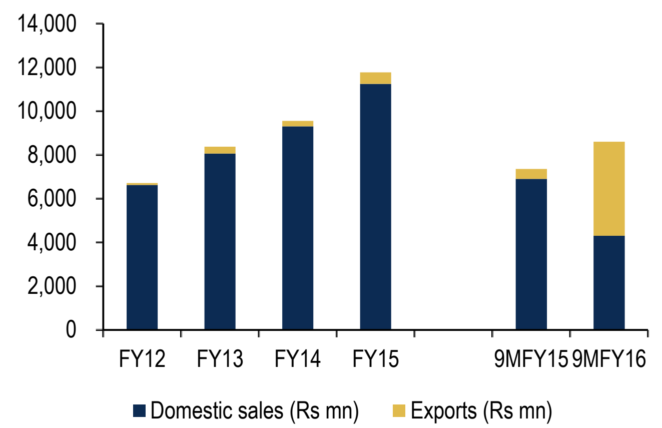
The cost per tower for Skipper is 10% lower than its South American peers due to (1) backward integration, (2) galvanization of steel is cheaper in India than in China or South America, (3) proximity to steel plants and ports results in lower freight costs at US$80/ton, and (4) lower labor costs. As a result, Skipper secured significant orders from South America, resulting in a higher share of export order book to 47% of total book in FY15. Consequently, the share of export revenue increased to 50% in 9MFY16 vs 6% in 9MFY15.

Chart 20: Sharp increase in share of export orders post tie-up with South America's largest transmission service operator...



Source: Company data

Chart 21: ....consequently, share of export revenues increased to 50% in 9MFY16



Source: Company data

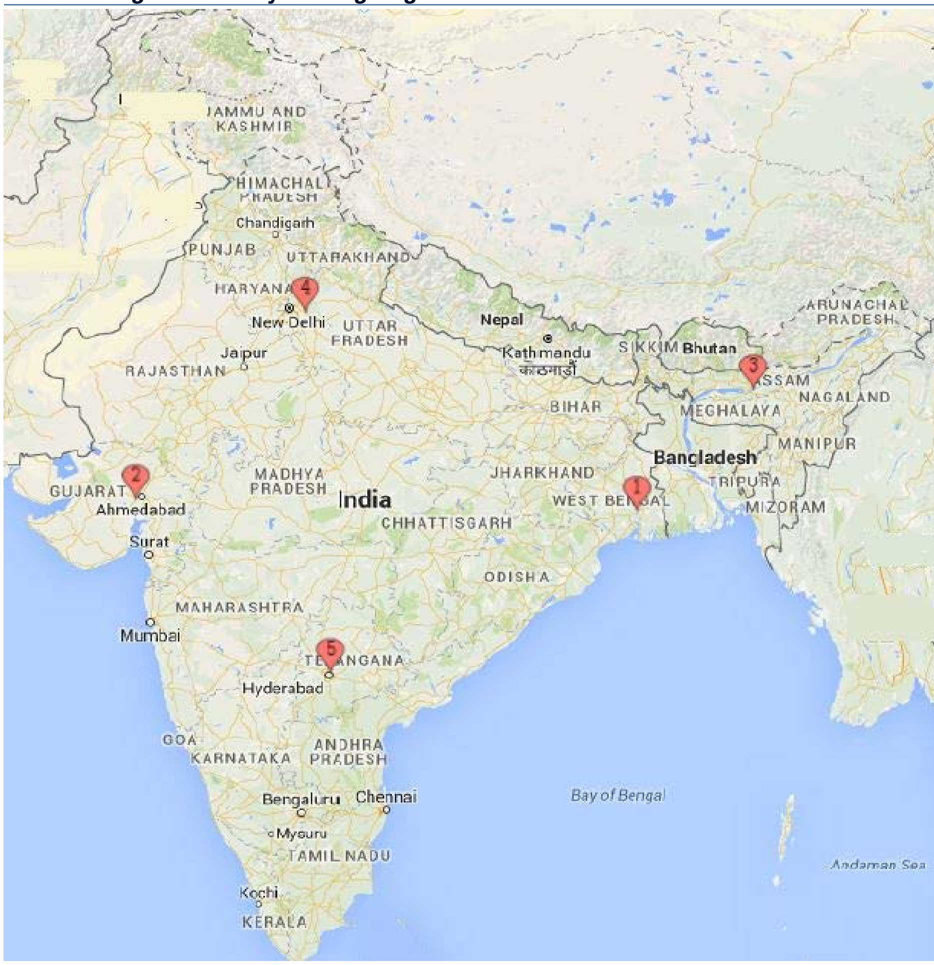
2. Water transportation: Asset light model, pan-India manufacturing reach

The company started water transportation business in 2009 at Uluberia, West Bengal. It manufactures plastic pipes (PVC and CPVC pipes and fittings). The key consumer segments for the company are agriculture (75% of segment revenue) and housing (25% of segment revenue). The key entry barrier to manufacture CPVC pipes is availability of raw material as CPVC resin is manufactured by selective companies globally such as Sekusui, Lubrizol, Arkema, etc. The company signed a tie-up with Sekusui, Japan, for procurement of CPVC resin in 2015.

According to management, one of the key competitive advantages of Skipper is pan-India manufacturing capacity as PVC pipes are freight intensive. The company has four operational projects: (1) Uluberia, East India; (2) Ahmedabad, West India; (3) Guwahati, North East India (in trial phase) and (4) Sikanderabad, North India (recently commissioned).

It plans to commission another plant in Hyderabad, South India by 1Q FY17. After full commissioning of these five manufacturing plants, Skipper's PVC pipes manufacturing capacity will increase to 41,000 tons from 12,500 tons as on FY15. Further, the company is periodically increasing its dealer network (650 dealers as of 3Q FY16).

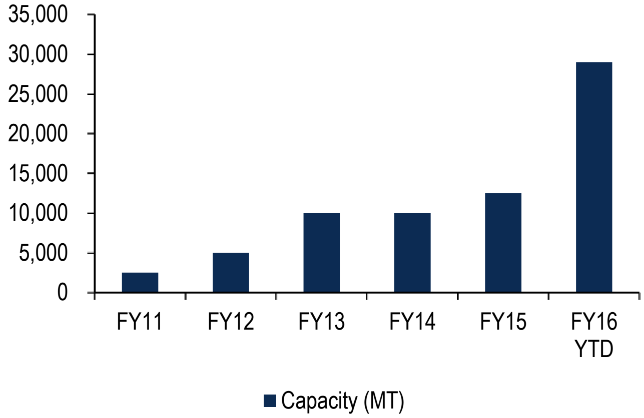
Exhibit 4: Despite small capacity as compared to larger national peers, Skipper has a pan-India manufacturing reach thereby reducing freight cost



Source: BofA Merrill Lynch Global Research

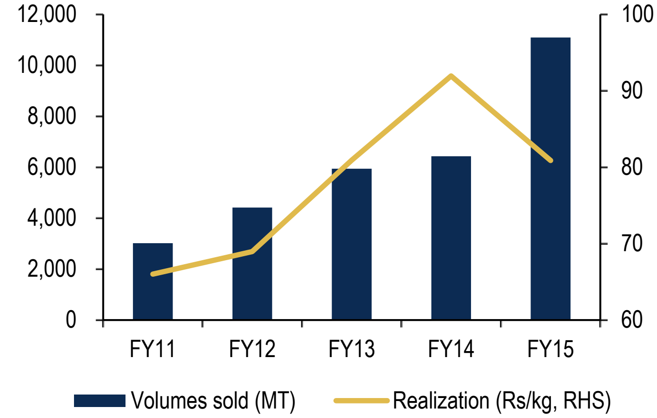
The company reported FY11-15 sales CAGR of 46% led an by increase in manufacturing and distribution reach, and high product quality. The company adopted an asset light lease model for PVC pipes whereby the company takes land and PVC pipe manufacturing equipment on lease.

Chart 22: Capacity expansion based on asset light business model…



Source: Company data

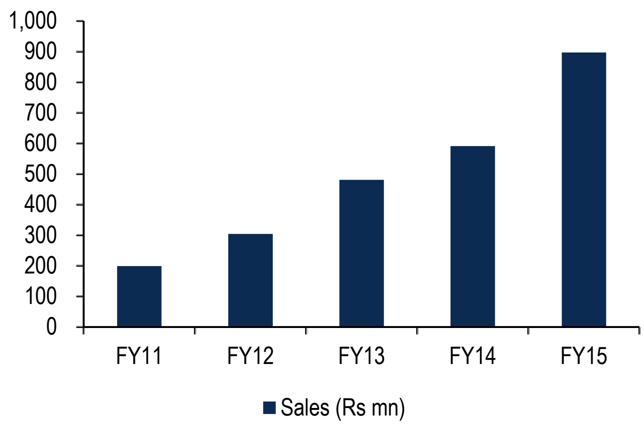
Chart 23: …led to increase in PVC pipes volumes sold



Source: Company data

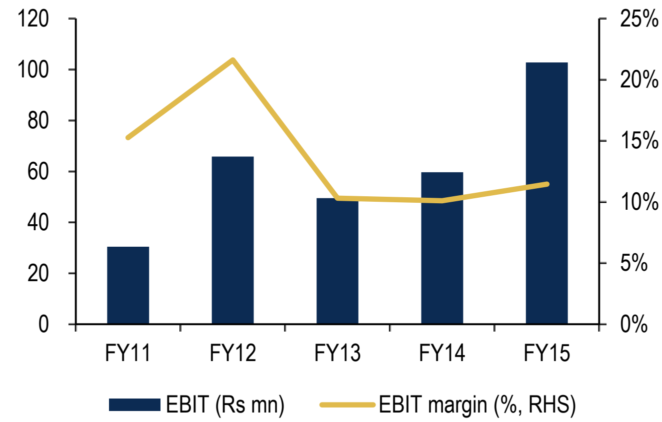
Supreme and Finolex Industries are leading PVC pipe domestic manufacturers. These companies have set a precedent of almost 100% pass through of change in raw material prices to customers. Skipper also follows a similar policy for change in raw material prices resulting in stable EBIT margins for PVC pipes segment.

Chart 24: …and 46% FY11-15 sales CAGR



Source: Company data

Chart 25: PVC pipe segment margins have been stable in the last three years

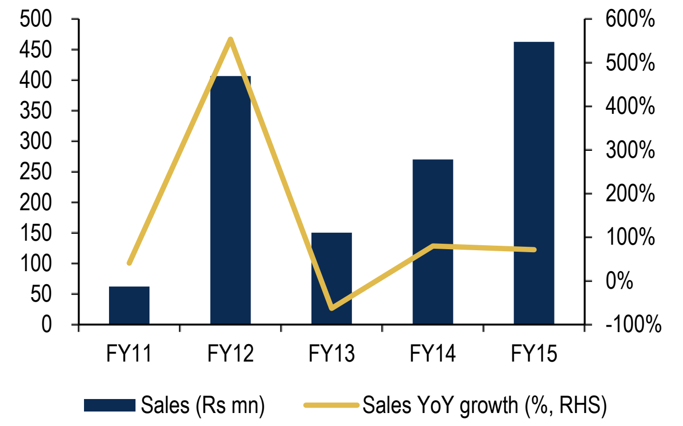


Source: Company,data

3. Infrastructure: Power T&D EPC projects

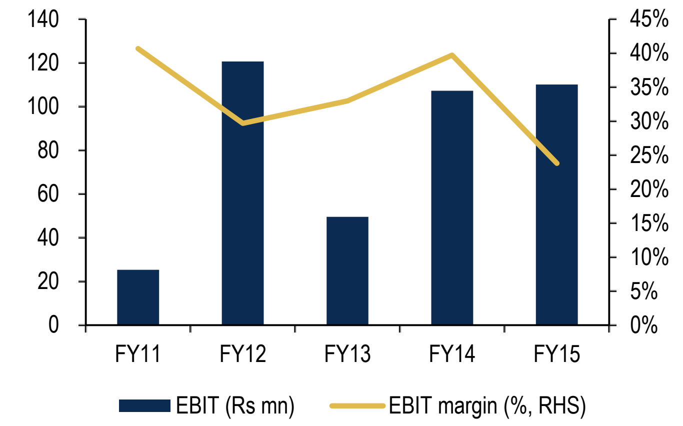
The infrastructure segment comprises of power T&D EPC projects as well as trenchless technology services for underground installation of utilities. The company's sales witnessed a 65% CAGR over FY11-15 from a low base.

Chart 26: Sales CAGR of 65% over FY11-15



Source: Company,data

Chart 27: EBIT margins have been in the range of 24-40% in the last five years



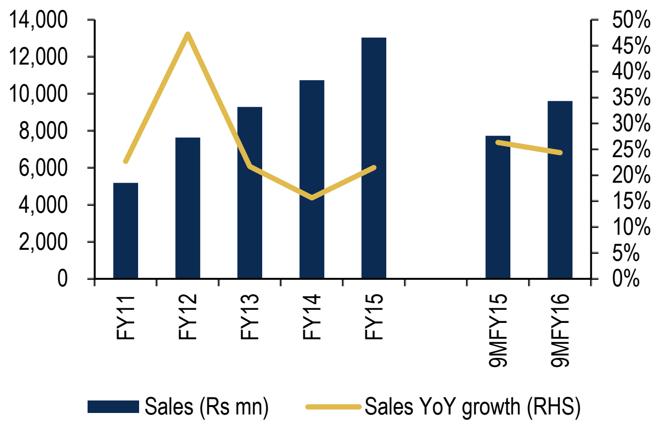
Source: Company data

Financial performance: in expansion mode

Skipper reported 26% sales CAGR over FY11-15 led by: (1) 25% sales CAGR in power transmission and towers and (2) 46% sales CAGR in water transportation, albeit on a low base. Water transportation accounts for 7% of Skipper's total sales. Power transmission tower revenue growth was driven by market-share gains in orders tendered by Power Grid. Note Power Grid accounts for 80-85% of total power transmission towers revenue. Water transportation revenue growth was led by capacity expansion and market share gains from unorganized players.

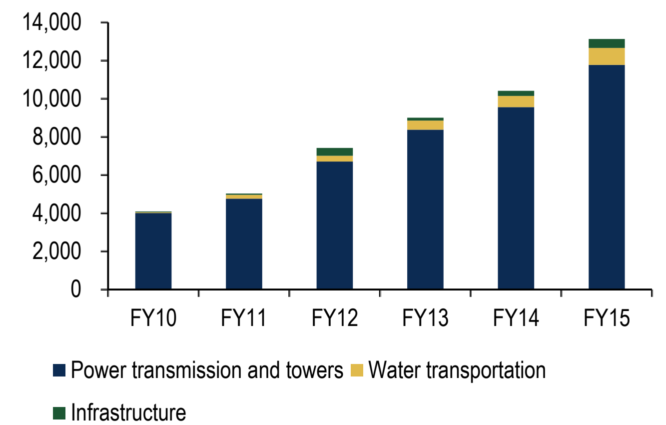
In the last three quarters, Skippers' sales growth was hampered by lower metal and crude oil prices. The company reported 20% YoY volume growth in power transmission tower segment in 3Q FY16, but the segment sales growth was only 13% YoY due to 7% YoY lower realization.

Chart 28: Skipper reported 26% sales CAGR over FY11-15...



Source: Company data

Chart 29: ...led by consistent growth in power transmission towers sales and sharp rise in PVC pipes revenues



Source: Company data

Skipper's adjusted EBITA margins rose sharply from 9.5% in FY11 to 14.2% in FY15 owing to economies of scale at strategic locations close to the steel manufacturing plants thereby reducing freight costs, and backward integration. In addition, the company shut down its loss making steel pipe manufacturing facility in FY14.

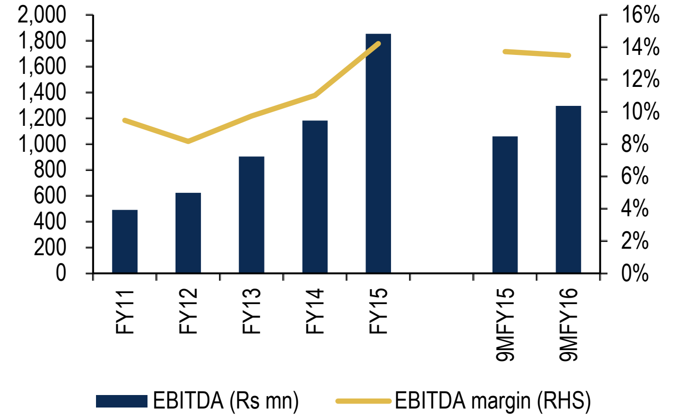
Table 5: Skipper - manufacturing facilities

	Engineering Products (MTPA)	PVC Pipes & Fittings Products (MTPA)
Uluberia - Kolkata (WB)	70,000	15,000
Unit 1 - Kolkata (WB)	69,000	0
BCTL - Kolkata (WB)	36,000	0
Ahmedabad	0	10,000
Guwahati	0	4,000
Sikanderabad	0	6,000
Hyderabad	0	6,000
Total	**1,75,000**	**41,000**

Source: Company data

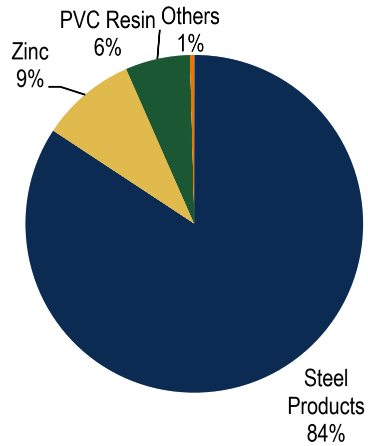
Skipper has a cost escalation pass-through clause with its customers for change in raw material prices such as steel, zinc. Thus, its 9M FY16 EBITDA margin was stable at 13.5% resulting in a 22.3% YoY increase in 9M FY16 EBITDA, in line with 9M FY16 sales growth of 24.3%.

Chart 30: Rise in EBITDA margins due to backward integration at strategic locations; Despite commodity price decline 9MFY16 margins stable...



Source: Company,data

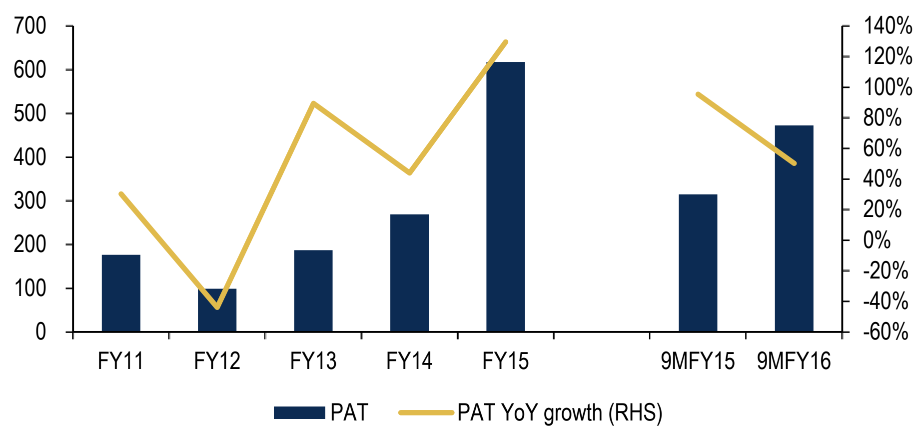
Chart 31: ...as the company has raw material variation pass through clause in the contract



Source: Company,data

Skipper reported 37% PAT CAGR in FY11-15 led by: (1) economies of scale and backward integration in power transmission and tower and (2) a continuing increase in manufacturing reach in PVC pipes segment. The company increased PVC pipe manufacturing capacity from 2,500 tons in FY11 to 12,500 tons in FY15, a five-fold increase. It plans to further increase PVC pipe manufacturing capacity to 41,000 tons by 1Q FY17.

Chart 32: 37% FY11-15 PAT CAGR led by economies of scale and backward integration in power transmission & tower segment and increase in manufacturing reach in PVC pipes segment

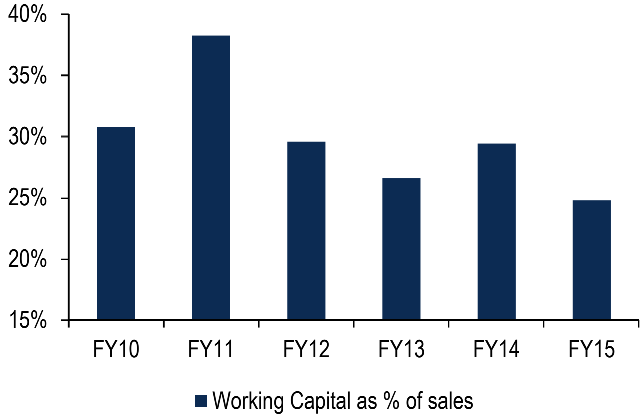


Source: Company data

Improving cash flow; strengthening balance sheet

Skipper's working capital cycle declined from 38% of sales in FY11 to 25% in FY15 due to lower inventory days and higher trade payable days. However, trade receivable days increased to 112 from 95 in FY15 due to an increase in power transmission tower business share. According to management, stable trade receivable days in transmission and towers segment are about 90 and trade receivable days in PVC pipes are about 15-30.

Chart 33: Working capital cycle as % of sales declined since FY11…



Source: Company data

Table 6: …led by lower inventory days and higher trade payable days

Days	FY11	FY12	FY13	FY14	FY15
Inventory days based on COGS	120	113	109	112	95
Total Receivable days based on sales	54	57	59	66	85
Loans and advances based on sales	19	22	22	16	13
Trade payables based on sales	12	30	45	46	57
Other current liabilities including advances from clients based on sales	12	23	19	8	15
Working capital days	**169**	**138**	**125**	**140**	**121**

Source: Company,data

Skipper's receivables more than six months to total receivables has consistently declined in the last five years from around 16% in FY10 to 4% in FY15.

Table 7: Consistent decline in receivables more than six month to total receivables

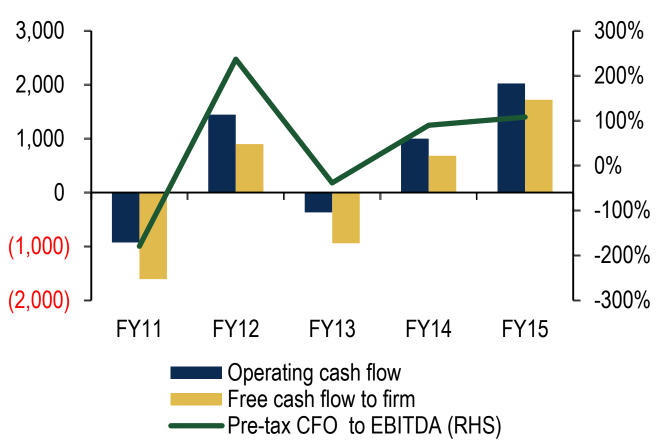
	FY10	FY11	FY12	FY13	FY14	FY15
Receivables more than six months (Rs mn)	95.1	70.1	83.1	76	93.2	146.5
Total Receivables (Rs mn)	607	921	1,449	1,549	2,318	3,758
Receivables more than six months as % of total receivables	**15.7%**	**7.6%**	**5.7%**	**4.9%**	**4.0%**	**3.9%**
Receivable more than six months days based on sales	**8**	**5**	**4**	**3**	**4**	**4**

Source: Company data

Company utilized free cash flow proceeds to reduce leverage

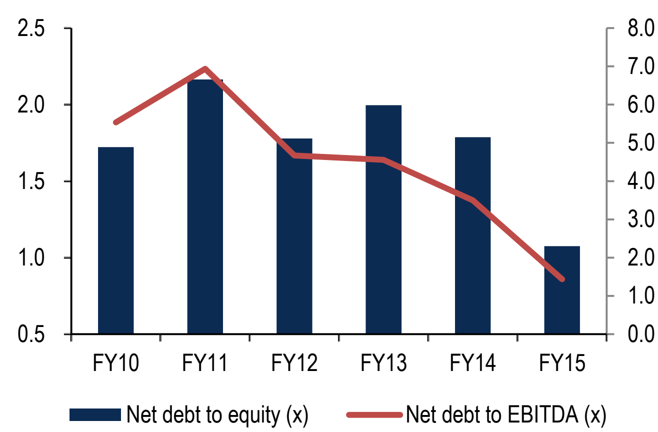
Operating and free cash flow of the company improved in FY14 and FY15 owing to lower working capital requirements led by an increase in trade payables. The company utilized internal accruals to reduce net debt to equity from 2.2x in FY11 to 1.1x in FY15. According to management, the company plans to further reduce long-term borrowing.

Chart 34: Decline in working capital requirement led to strong operating cash flow in FY14/FY15…



Source: Company data

Chart 35: …which enabled the management to reduce net debt to equity



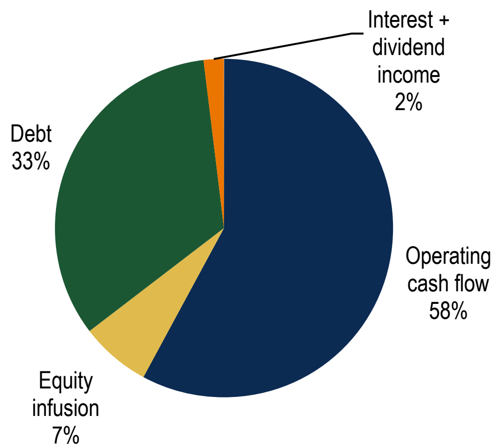
Source: Company data

Efficient capital allocation in competitive industry

The key sources of funds for Skipper in the last five years have been operating cash flow and debt. Equity infusion accounted for only 7% of the sources of funds in FY11-15. The company issued Rs290mn redeemable non-cumulative preference shares in FY11. It issued 27mn shares to raise Rs513mn in FY13 and repay preference shareholders.

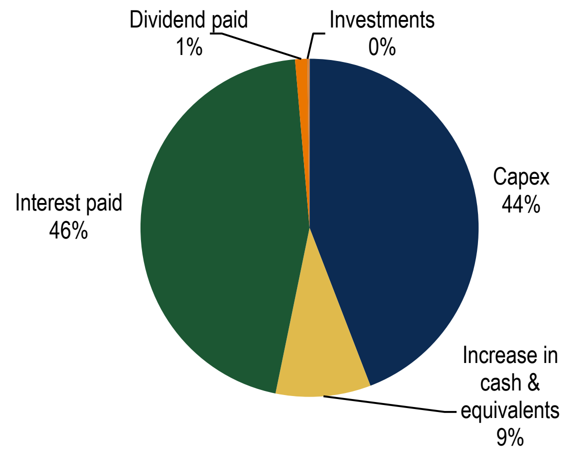
Capex accounted for 44% of application of funds over FY11-15 as Skipper increased manufacturing capacity of transmission towers and PVC pipes in the last five years. The share of interest paid is 46% of application of funds over FY11-15 due to high leverage from FY11-14 (average net debt to equity of 1.9x) and high average cost of debt. Note that the net debt to equity dropped to 1.1x as of FY15.

Chart 36: Sources of funds over FY11-15



Source: Company data

Chart 37: Applications of funds over FY11-15



Source: Company data

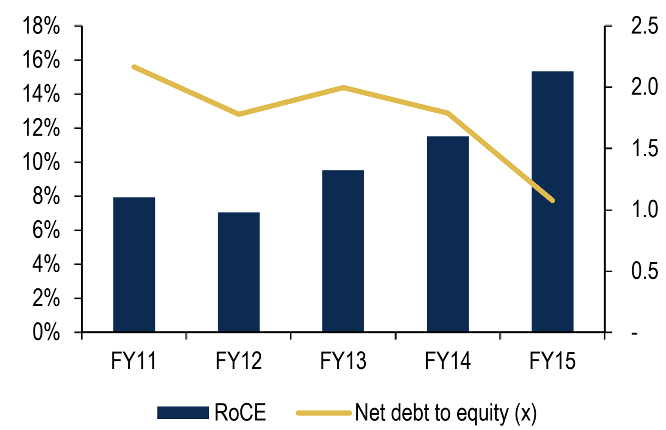
Skipper's ROE increased from 12-13% over FY11-14 to 23% in FY15 due to an increase in EBIT margins and higher asset turnover.

Table 8: Du Pont analysis – Increase in ROE led by higher EBIT margins and higher asset turnover

	FY10	FY11	FY12	FY13	FY14	FY15
Recurring PAT / PBT %	65.9%	69.9%	67.7%	67.4%	73.3%	65.3%
PBT / EBIT (x)	0.66	0.59	0.29	0.36	0.36	0.67
EBIT / Sales %	7.4%	8.2%	6.6%	8.4%	9.6%	12.5%
Sales/ Avg Assets (x)	1.80	1.86	2.27	2.41	2.38	2.66
Assets / Avg Net worth %	2.11	2.08	2.10	2.09	2.06	1.83
Recurring ROE	**12.2%**	**13.2%**	**6.2%**	**10.1%**	**12.3%**	**23.1%**

Source: Company data

Chart 38: Increase in RoCE led by higher EBIT margins

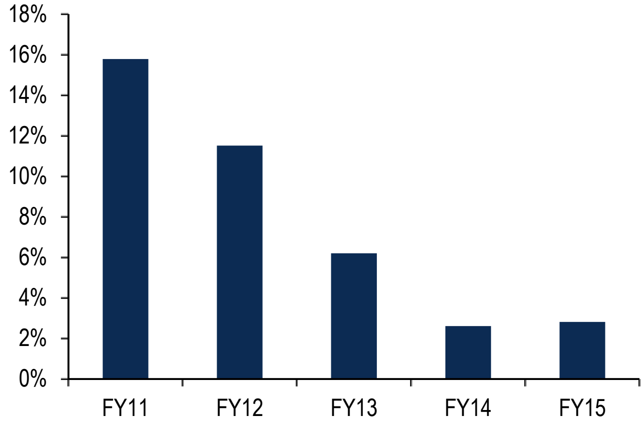


Source: Company data

Skipper's capex to sales ratio was high in FY10/11 as it increased manufacturing capacity of transmission towers and commissioned manufacturing of rolling mills for backward integration in FY10/11. The company incurred only Rs227mn in capex to increase PVC pipe manufacturing capacity from 2,500 tons in FY11 to 12,500 tons in

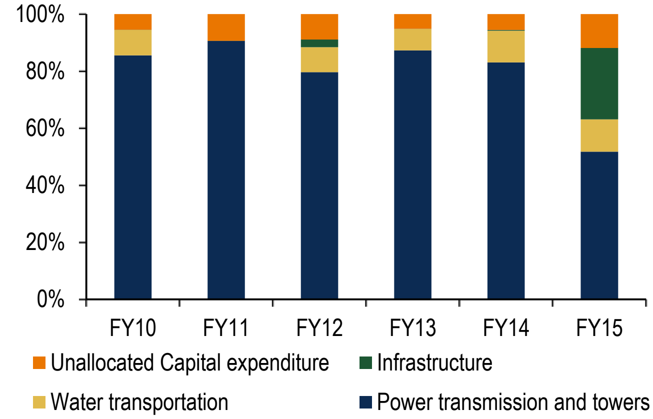
FY15 as it adopted an asset-light leasing model. As a result, the company's capex to sales ratio has declined from 16% in FY11 to 3% in FY15. According to management, the company will incur capex of about Rs500mn in FY17.

Chart 39: Decline in capex to sales ratio due to asset light business model in PVC pipes segment



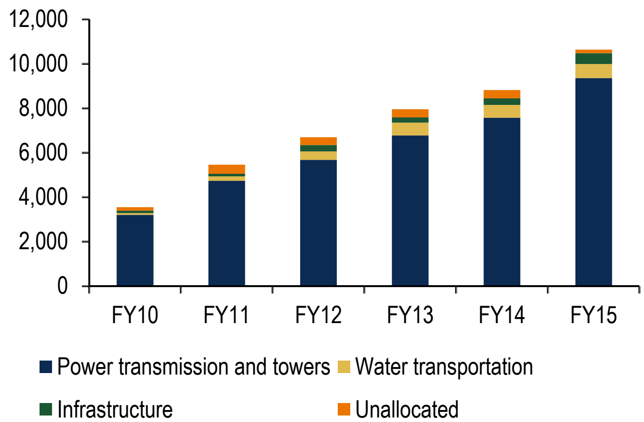
Source: Company data

Chart 40: ... transmission towers segment accounts for majority of the capex



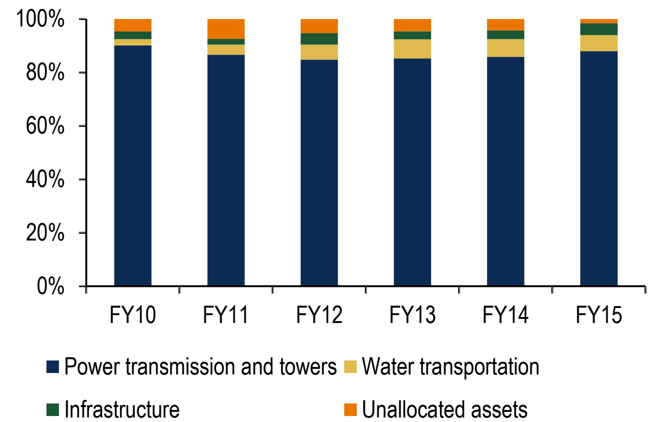
Source: Company data,

Chart 41: Strong capex led to 25% CAGR in total assets over FY10-15



Source: Company data

Chart 42: ...of which transmission and towers segment accounts for 88% of the total assets



Source: Company data

Corporate governance checks

Promoters hold senior management positions

The key senior management positions are held by the promoter Sajan Bansal (Managing Director) and his three sons: (1) Sharan Bansal, head of the tower manufacturing and EPC business, (2) Devesh Bansal, head of the tubes and tubular division and (3) Siddharth Bansal, head of the PVC pipe segment.

Table 9: Board of Directors

Name	Designation	Other directorships	Date of appointment	Description
Sajan Kumar Bansal	Promoter, Managing Director	Bansal TMT Steels, Skipper Infrastructure, Cement Manufacturing Co, Skipper Tele - Link, Swasti Agencies, Riangdo Veneers and Transcend Infrastructure	2007	Prior to Managing Director, Mr Bansal was a Director at Skipper Limited since 1984. He has more than 25 years of experience in steel and engineering industry. He served as an Independent Director at Century Plyboards (India) from July, 2013 to May, 2014. He served as Director of Century Plyboards (India) Limited from December 2006 to March, 2011.
Sharon Bansal	Promoter, Director	N.A.	2002	Mr. Bansal is a graduate in Mechanical Engineering and heads the transmission tower manufacturing and EPC business of the Company
Devesh Bansal	Promoter, Director	N.A.	2007	He served as the Managing Director of Skipper Steels Limited from April 1, 2007 to March 31, 2010. He heads the Tubes and Tubular Product divisions of the company
Siddharth Bansal	Promoter, Director	N.A.	2010	He spearheaded the Company`s first diversification into non-steel products. He is responsible for the fast growing PVC pipe manufacturing divisions.

Source: Company data

Independent directors

The ratio of independent directors (excluding the Chairman) to executive directors is 1:1. Three of the four independent directors are also on the board of Century Plyboard, a plyboard manufacturing company based in Kolkata, West Bengal.

Table 10: Independent directors

Name	Designation	Other directorships	Date of appointment	Description
Amit Kiran Deb	Chairman	India Power Corporation, Emami	2010	He has over 30 years of experience in State & Central Government governance and before served as the Chief Secretary, Government of West Bengal. Mr. Deb holds a Masters Degree in Political Science from Allahabad University and had Joined the Indian Administrative Service (IAS) in 1971
Manindra Nath Banerjee	Independent Director	Century Plyboards and Star Ferro & Cement	2007	In his 40 year service career, he has served as Managing Director as well as Chairman of over 10 State Government undertakings. He has also worked in Durgapur Steel plant on deputation from State Government.
Shyam Bahadur Singh	Independent Director	Adhunik Industries, Jai Balaji Industries	2009	He was the Managing Director of Durgapur steel plant and a Director on the Board of SAL in 1993. He holds a B.Sc in Metallurgical Engineering
Mamta Binani	Independent Director	Century Plyboards and GPT Infrapojects	2015	Mrs. Binani is presently Vice-President of the Institute of Company Secretary of India and occupied as one of the leading practicing Company Secretary from the eastern India. Her professional career includes 17 years of experience in corporate consultation & advisory.
Joginder Pal Dua	Independent Director	Oriental Bank of Commerce, Century Plyboards	2016	He served as an Executive Chairman and Managing Director of Allahabad Bank from December, 2009 to August, 2012. Mr. Dua served as a General Manager of Oriental Bank of Commerce. He has been Chairman of the Board of Board for Industrial & Financial Reconstruction since May, 2015. He served as an Executive Director of Allahabad Bank from November, 2007 to August, 2012.

Source: Company data

Management remuneration not a concern

The FY10-15 management remuneration CAGR of 32% appears high, but is in line with the employee cost CAGR of 37% in FY10-15. The management remuneration to PAT ratio has been volatile due to volatility in the PAT.

Table 11: Remuneration of directors and key managerial personnel

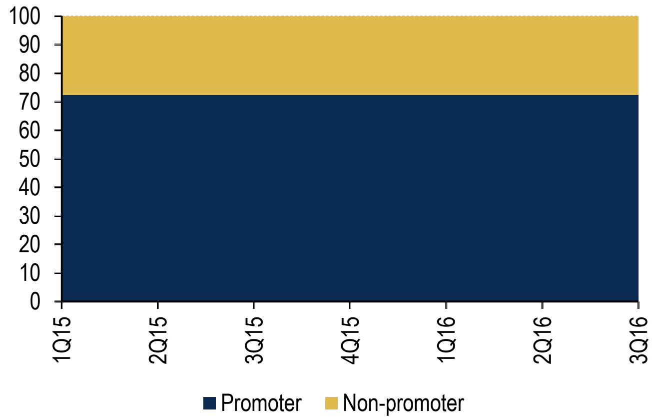
Rs mn	FY10	FY11	FY12	FY13	FY14	FY15
Key management remuneration	8.8	14.8	16	21.6	32.4	36.3
% YoY		68%	8%	35%	50%	12%
% of revenues	0.2%	0.3%	0.2%	0.2%	0.3%	0.3%
% of EBITDA	2.5%	3.0%	2.6%	2.4%	2.7%	1.6%
% of PAT	**6.5%**	**8.4%**	**16.2%**	**11.5%**	**12.0%**	**4.1%**

Source: Company data

Shareholding pattern: High retail participation

We have limited history for Skipper's shareholding pattern as the company was recently listed on the BSE exchange in August 2014. The promoter shareholding has largely been unchanged in the last seven quarters. While the retail segment continues to be major non-promoter shareholders of Skipper, institutional investors such as DSP Blackrock and First State have bought stakes in the company in the last six months.

Chart 43: Promoter shareholding constant at 72% in the last seven quarters



Source: BSE

Table 12: Key institutional investors in Skipper Limited

Holder Name	Number of shares	Percentage of outstanding shares (%)
DSP Blackrock Investment	2,339,996	2.29
First State Investments	713,390	0.70
Canara Robeco Asset Management	573,000	0.56
Indiabulls Asset Management	15,921	0.02

Source: Company data

Below is a list of insider trades for Skipper.

Table 13: Insider trading

Trade Date	Participants	Net Buy (number of shares)
11/21/2014	Siddharth Bansal	2,400,000
11/7/2014	Shakar Lal Poddar	200
10/29/2014	Devesh Bansal	1,260,000
9/15/2014	Indo Jatalia Holdings	705,000

Source: Bloomberg

High contingent liabilities: Performance guarantees for ongoing projects

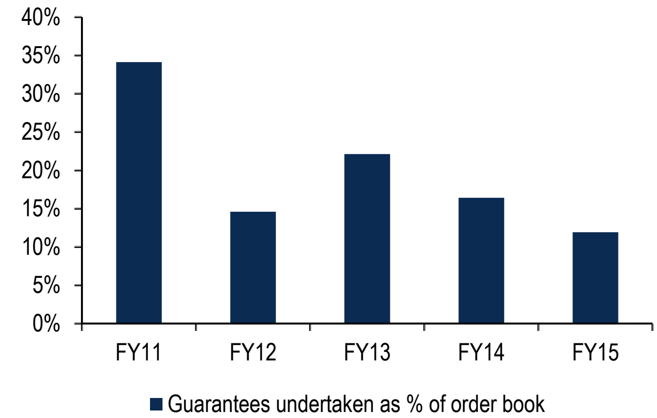
The average contingent liability to net worth of the company was high at 99% over FY11-15 due to performance guarantees for ongoing projects. We note the ratio of performance guarantees to order book has declined from 34% in FY11 to 12% in FY15.

Table 14: Contingent liabilities (Rs mn)

	FY11	FY12	FY13	FY14	FY15
Claims not acknowledged as debt	45	48	47	0	0
Guarantees undertaken	1,318	1,215	1,208	2,120	2,919
Letter of Credit	775	0	0	0	0
Bills Discounted	317	0	0	0	0
Other Disputed Claims	0	0	0	170	202
Total Contingent Liabilities	**2,455**	**1,263**	**1,255**	**2,291**	**3,121**
as % of net worth	**156%**	**77%**	**61%**	**99%**	**103%**

Source: Company data

Chart 44: Decline in the ratio of guarantees undertaken to order book ratio



Source: Company data

No qualifications by auditors

The company changed its statutory auditors from Patanjali & Company to Singhi & Company in FY15. The auditors have made no qualifications about the company in the last five annual reports. The auditors have highlighted: (1) taxes due on account of dispute and the forum where dispute is pending and (2) loans taken by the company from related parties.

Table 15: Changes in auditor

Year	Auditor	Qualifications (if any)
FY11	M/s Patanjali & Co	No
FY12	M/s Patanjali & Co	No
FY13	M/s Patanjali & Co	No
FY14	M/s Patanjali & Co	No
FY15	M/s. Singhi & Company	No

Source: Company data

The auditor's remuneration was low at 0.1-0.2% of PBT in the last six years.

Table 16: Auditor's remuneration

Key parameters (Rs mn)	FY10	FY11	FY12	FY13	FY14	FY15
Auditors remuneration	0.2	0.2	0.3	0.3	0.5	1.2
YoY growth (%)		0%	50%	0%	67%	140%
Auditors remuneration as % of PBT	**0.1%**	**0.1%**	**0.2%**	**0.1%**	**0.1%**	**0.1%**

Source: Company data

Tax dues as of March 2015, equivalent to 32% of FY15 PAT

Total outstanding taxes due on account of disputes were Rs201mn, equivalent to 32% of Skipper's recurring FY15 PAT of Rs618mn.

Table 17: Taxes due on account of dispute of Skipper Limited as on FY15

Name of statue	Amount (Rs mn)	Period to which amount relates	Forum where dispute is pending
West Bengal Sales	13.7	2005-06	West Bengal Com. Taxes Appellate
Tax Act 1994	10.6	2006-07	& Revisional Board
West Bengal Value	50.2	2009-10	Additional Commissioner of Commercial Taxes, Kolkata
Added Tax Act, 2003	52.9	2010-11	Joint Commissioner of Commercial
	3.8	2011-12	Taxes, Kolkata
Central Sales Tax	12.2	2005-06	West Bengal Com. Taxes Appellate
Act 1956	2.3	2006-07	& Revisional Board
	1.0	2006-07	Joint Commissioner of Commercial
	24.6	2010-11	Taxes, Kolkata
	21.7	2011-12	

Table 17: Taxes due on account of dispute of Skipper Limited as on FY15

Name of statue	Amount (Rs mn)	Period to which amount relates	Forum where dispute is pending
The Central Excise	.2	2005-06	Commissioner Appeals (Central
Act, 1944	.7	2007-08	Excise), Kolkata
	.3	2010-11	Commissioner (Appeals I) – Central
	1.2	2007-08 & 2008-09	Excise Kolkata
Service Tax under	.4	2005-06	Customs, Excise and Service Tax
Finance Act, 1994	.1	2007-08	Appellate Tribunal, Kolkata
	5.6	2007-08	Commissioner (Appeals), Service Tax, Kolkata
Total	**201.5**		

Source: Company data

Related party transaction: Loans taken from directors at low interest rates

The company has periodically taken loans from executive directors of the company at low interest rates as shown below. These loans have been repaid by the company within 12-24 months.

Table 18: Related party transactions (Rs mn)

	FY10	FY11	FY12	FY13	FY14	FY15
Rendering or receiving of service	8.9	14.4	17.2	17.2	33.6	37.4
Loan taken	77.9	590.2	655.5	198.2	128.2	137.9
Loan refunded	74.8	468.4	398.3	313.0	136.0	424.7
Advance taken	54.7	37.3	-	-	-	-
Advance given	0.0	-	-	-	-	-
Advance received back	2.4	-	-	-	-	-
Advance taken refunded	43.4	41.7	-	-	-	-
Rent given	0.8	0.8	0.9	0.9	1.1	1.2
Sales and operations	4.7	27.7	-	-	-	-
Payables	37.9	216.3	470.9	352.8	344.7	58.0
Receivable	0.6	5.6	-	-	-	-
Interest paid	1.7	3.9	-	-	-	-
Donation given				2.9	2.3	5.0

Source: Company data

Financial summary - standalone

Table 19: Skipper - Standalone Profit & Loss statement

FY ends on Mar31st, (Rs mn)	FY11	FY12	FY13	FY14	FY15
Net Sales	**5,183**	**7,629**	**9,282**	**10,731**	**13,033**
Raw Material Cost	(3,933)	(5,582)	(6,829)	(7,600)	(8,797)
Staff cost	(107)	(154)	(173)	(242)	(305)
Other expenditure	(653)	(1,270)	(1,377)	(1,707)	(2,077)
Total Operating Expenditure	**(4,692)**	**(7,006)**	**(8,378)**	**(9,549)**	**(11,179)**
EBITDA	**490**	**623**	**903**	**1,182**	**1,853**
Depreciation & Amortization	(66)	(117)	(126)	(151)	(220)
EBIT	**425**	**506**	**778**	**1,031**	**1,633**
Interest Expenses	(218)	(368)	(514)	(685)	(704)
Interest & Other Income	46	8	14	21	17
PBT	**253**	**146**	**278**	**367**	**946**
Total Taxes	**(76)**	**(47)**	**(91)**	**(98)**	**(328)**
Tax Rate (%)	30.1%	32.3%	32.6%	26.7%	34.7%
Recurring PAT post minority	**176**	**99**	**187**	**269**	**618**
Extraordinary Income	(13)	(1)	0	0	277
Reported PAT	**164**	**98**	**187**	**269**	**894**

Source: Company, BofA Merrill Lynch Global Research

Table 20: Skipper - Standalone Balance Sheet

FY ends on Mar31st, (Rs mn)	FY11	FY12	FY13	FY14	FY15
Equity Share Capital	**70**	**70**	**97**	**102**	**102**
Reserves & Surplus	1,501	1,565	1,964	2,209	2,936
Net worth	**1,572**	**1,635**	**2,061**	**2,312**	**3,039**
Minority Interest	-	-	-	-	-
Long Term Borrowings	1,562	1,750	1,948	2,281	1,662
Deferred Tax Liability, Net	94	111	181	218	265
Other LT Liabilities & Provisions	-	7	16	10	-
Non-Current Liabilities	**1,656**	**1,868**	**2,145**	**2,509**	**1,927**
NETWORTH & LIABILITIES	**3,228**	**3,504**	**4,206**	**4,820**	**4,966**
Gross Block	**2,255**	**3,117**	**3,675**	**3,943**	**4,295**
CWIP	335	21	36	83	35
Net Fixed Asset	**2,416**	**2,848**	**3,298**	**3,468**	**3,547**
Long Term investments	-	-	-	-	-
LT L&A and other Non-current assets	-	7	9	21	31
Non-current Assets	**2,416**	**2,855**	**3,307**	**3,489**	**3,578**
Current Investments					
Inventories	1,761	1,689	2,378	2,290	2,282
ST Trade Receivables	921	1,449	1,549	2,318	3,758
Cash & Bank	69	86	128	263	561
ST L&A and other Non-current assets	295	614	507	455	458
Current Assets	**3,045**	**3,839**	**4,562**	**5,326**	**7,059**
ST & CM of LT Borrowings	1,909	1,244	2,295	2,114	2,166
Trade Payables	147	1,120	1,162	1,563	2,492
Other Current Liabilities	164	791	195	293	803
ST Provisions	13	35	12	25	210
Current Liabilities	**2,233**	**3,190**	**3,662**	**3,995**	**5,671**
Net Current Assets	**812**	**648**	**900**	**1,331**	**1,388**
TOTAL ASSETS	**3,228**	**3,504**	**4,206**	**4,820**	**4,966**

Source: Company data

Table 21: Skipper - Standalone Cash Flow statement

FY ends on Mar31st, (Rs mn)	FY11	FY12	FY13	FY14	FY15
PBT	253	146	278	367	946
Add: Depreciation	66	117	126	151	220
Add: Interest Expenses	218	368	514	685	704
Less: Interest & Other Income	(46)	(8)	(14)	(21)	(17)
Less: Current Tax	(44)	(31)	(20)	(61)	(279)
Profit from operations	**446**	**592**	**884**	**1,120**	**1,574**
- Change in Inventory	(932)	71	(689)	88	8
- Change in Trade Receivables	(314)	(529)	(99)	(770)	(1,440)
- Change in Other CA, Loans & Advances	(63)	(320)	107	53	(3)
- Change in Current liabilities & provisions	(63)	1,623	(579)	514	1,624
- Change in Other non-current assets & liabilities	-	7	8	(6)	(12)
Changes in Working Capital	**(1,372)**	**853**	**(1,251)**	**(122)**	**177**
Cash from Operating activities	**(926)**	**1,446**	**(368)**	**999**	**1,751**
Capex	(680)	(548)	(574)	(315)	(304)
Changes in Investments	2	-	-	-	-
Interest & Other Income	46	8	14	21	17
Cash from Investing activities	**(645)**	**(543)**	**(561)**	**(299)**	**(6)**
Changes in Share Capital	290	-	(263)	5	-
Changes in Reserve & Surplus	20	1	513	(5)	(7)
Changes in Minority interest	-	-	-	-	-
Changes in Debt	1,478	(477)	1,249	152	(566)
Dividend paid	(12)	(12)	(35)	(11)	(18)
Interest Expense	(218)	(368)	(514)	(685)	(704)
Cash from Financing activities	**1,558**	**(856)**	**949**	**(545)**	**(1,296)**
Changes in Cash & Bank	**(12)**	**47**	**20**	**154**	**449**

Source: Company data

Table 22: Skipper - Standalone Key Ratios & Valuations

FY ends on Mar31st, (Rs mn)	FY11	FY12	FY13	FY14	FY15
Per Share					
Recurring EPS (Rs)	2.5	1.4	1.9	2.6	6.0
BVPS (Rs)	22.3	23.2	21.2	22.6	29.7
DPS (Rs)	0.2	0.4	0.1	0.2	1.3
Free Cash Flow / share (Rs)	(22.8)	12.8	(9.7)	6.7	14.1
Valuations					
Rec P/E (x)	56.2	100.5	73.4	53.6	23.4
P/BV (x)	6.3	6.1	6.7	6.2	4.7
Dividend Yield (%)	0.1%	0.3%	0.1%	0.1%	0.9%
Gearing Ratios					
Net Debt / Equity (x)	2.2	1.8	2.0	1.8	1.1
Interest Coverage (x)	1.9	1.4	1.5	1.5	2.3
Growth (%)					
Sales Growth (%)	22.7%	47.2%	21.7%	15.6%	21.5%
EBITDA Growth (%)	42.0%	27.0%	45.1%	30.8%	56.8%
EBIT Growth (%)	35.5%	19.0%	53.8%	32.6%	58.4%
PBT Growth (%)	22.7%	-42.2%	90.3%	32.2%	157.7%
Rec EPS Growth %	30.2%	-44.0%	36.9%	36.9%	129.5%
BV Growth %	41.6%	4.0%	-8.9%	6.8%	31.4%
Margins (%)					
EBITDA Margin (%)	9.5%	8.2%	9.7%	11.0%	14.2%
EBIT Margin (%)	8.2%	6.6%	8.4%	9.6%	12.5%
PBT Margin (%)	4.9%	1.9%	3.0%	3.4%	7.3%
Rec PAT Margin (%)	3.4%	1.3%	2.0%	2.5%	4.7%
Return Ratios					
Dividend Payout (%)	6.0%	30.6%	5.2%	5.7%	21.5%
RoCE (%)	7.9%	7.0%	9.5%	11.5%	15.3%
Rec. RoE (%)	13.2%	6.2%	10.1%	12.3%	23.1%

Source: Company, BofA Merrill Lynch Global Research

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