

Institutional Equity Research

**Skipper**

Capital Goods | India

3QFY18 Result Update | February 08, 2018

CMP (Rs)	249
Upside/ (Downside) (%)	36.5
Bloomberg Ticker	SKIPPER IN
Market Cap. (Rs bn)	25.5
Free Float (%)	29.7
Shares O/S (mn)	102.3



Target Price: Rs340

## Transmission Capex Play; On Right Track

Skipper continued to deliver a strong performance in 3QFY18 with its net revenue growing by 39.6% YoY to Rs4.32bn, led by strong volume execution in Engineering Products business and rising commodity prices. Aided by better execution, its EBITDA and PAT grew by 27% YoY and 31.5% YoY to Rs740mn and Rs292mn, respectively. We continue to believe that a sizeable order book, huge imminent opportunity and diversification into PVC business firmly place Skipper on a higher growth trajectory. **Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs340 (from Rs289 earlier).**

### Healthy Revenue Growth on Strong Engineering Volume

Though Skipper delivered a robust growth led by strong volume execution in Engineering Products business and rising commodity prices, GST-led disruptions restricted revenue growth in PVC business, which albeit rebounded from Nov'17 onwards. Its Transmission business (85.6% of total sales) grew by a strong 28.6% YoY to Rs4,863mn, while PVC business (9.5% of total sales) grew by 6.4% YoY to Rs593mn owing to GST-led disruptions. Notably, Infrastructure Products business (4.6% of total sales) remained flat (-0.7% YoY) at Rs261mn on high base.

### Operating Margin Improves Marginally; PAT Zoms

Skipper's EBITDA margin rose by 27bps YoY to 13.1% owing to cost benefit initiatives. Notably, interest cost declined by 7.3% YoY to Rs176mn due to lower cost of debt. Interest cost to sales dipped to 3.1% in 3QFY18 vs. 4.5% in 3QFY17. While margin in Engineering Products and Polymer business expanded by 40bps YoY and 50bps YoY to 13.1% and 6.7%, respectively, margin in Infrastructure Products business dipped by 170bps YoY to 12.3%. Aided by improved execution, higher margins and lower interest cost, Skipper's PAT surged by 31.5% YoY to Rs292mn.

### Order Book Continues to Remain Well-diversified

Skipper secured orders worth Rs5.2bn during the quarter from Power Grid Corporation (PGCIL), Telangana-TRANSCO, Tamil Nadu-TRANSCO and Reliance Jio including various supplies across South East Asia. Notably, its order book continues to remain well-diversified between PGCIL, domestic SEBs/private players and international clients. Skipper witnessed significant YTD order inflows from the North East Region, and we expect the momentum to continue with large size T&D investment happening in the eastern states i.e. Bihar and Jharkhand.

### Outlook & Valuation

We continue to believe that apart from increased revenue visibility in T&D business on the back of robust order book, expansion into PVC business would aid Skipper to sustain healthy earnings profile, going ahead. Skipper's sales and net profit are expected to clock 19.6% and 22.3% CAGR, respectively over FY17-FY20E, while RoCE is seen at 25.4% by FY20E. **Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs340 (from Rs289 earlier) valuing at 17x FY20E earnings of Rs19.9/share.**

Key Financials (Rs mn)	FY17E	FY18E	FY19E	FY20E
Net sales	17,030	21,373	25,152	29,145
PAT	1,115	1,295	1,656	2,040
EPS (Rs)	10.9	12.7	16.2	19.9
PE (x)	22.9	19.7	15.4	12.5
EV/EBITDA (x)	12.3	10.6	8.8	7.5
Book value (Rs/share)	48.3	59.3	73.7	92.0
P/BV (x)	5.2	4.2	3.4	2.7
ROCE	20.9	22.5	24.4	25.4
RONW	22.6	21.4	21.9	21.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(9.8)	(7.4)	60.6
Relative to Nifty	(9.3)	(9.9)	40.2

  

Shareholding Pattern (%)	Sep'17	Dec'17
Promoter	70.4	70.4
Public	29.7	29.7



Note: \* CMP as on Feb. 08, 2018

Research Analyst: Rupesh Sankhe

Contact: (022) 3320 1606

Email: rupesh.sankhe@relianceada.com

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### Risks to the View

- Lower-than-expected order inflows from PGCIL.
- Any significant delay in project execution.

### Key Business Highlights

- **Guwahati Plant Attains 100% Capacity Utilisation:** Skipper's newly-built Guwahati plant – having a capacity of 30,000MTPA for Engineering Products set to actively support PGCIL's several transmission projects in North-East region – attained 100% capacity utilisation with the capacities fully booked for next 16 months.
- **Focus on Railway Electrification Projects:** With a view to sharpening its focus on railway electrification business, Skipper intends to manufacture and supply various types of overhead wiring support structures i.e. Portals, Masts, Beams, Gantrys, Sub-station and customized steel structures. Notably, the Company is in the process of getting RDSO/core approval, following which it would start manufacturing (by 4QFY18-end). It also intends to increasingly start bidding for railway electrification projects in strategic alliance with local private players initially and the Company has already secured its first package in this space.
- **Update on Solar Structure Facility:** Skipper successfully commenced trial production at its new solar mounting structure facility at Uluberia. The Management expects to begin commercial production of ground-based module mounting structures, rooftop mounting structures, module mounting accessories and seasonal tilt structures by Feb'18-end.

### Exhibit 1: Quarterly Performance

(Rs mn)	3QFY17	3QFY18	QoQ (%)	2QFY18	YoY (%)	9MFY18	9MFY17	YoY (%)
<b>Net Sales</b>	<b>4,554.9</b>	<b>5,664.2</b>	<b>9.9</b>	<b>5,156.2</b>	<b>24.4</b>	<b>15,148</b>	<b>11,866</b>	<b>27.7</b>
Operating Costs	3,971.6	4,923.5	10.1	4,473.3	24.0	13,208	10,154	30.1
<b>EBITDA</b>	<b>583.3</b>	<b>740.8</b>	<b>8.5</b>	<b>682.9</b>	<b>27.0</b>	<b>1,940</b>	<b>1,712</b>	<b>13.3</b>
EBITDA Margin (%)	12.8	13.1		13.2		12.8	14.4	
Other Income	8.1	3.3	1.2	3.3	(59.0)	1,063	985	7.9
Interest	190.0	176.3	(12.0)	200.3	(7.3)	545	535	1.9
Depreciation	76.2	117.6	(2.4)	120.5	54.4	346	215	60.4
<b>Profit Before Tax</b>	<b>325.1</b>	<b>450.2</b>	<b>23.2</b>	<b>365.3</b>	<b>38.5</b>	<b>1,063</b>	<b>985</b>	<b>7.9</b>
Tax	103.1	158.2		132.9		379	324	
Tax Rate (%)	31.7	35.1		36.4		36	33	
<b>Reported PAT</b>	<b>222.1</b>	<b>292.0</b>	<b>25.6</b>	<b>232.4</b>	<b>31.5%</b>	<b>684</b>	<b>661</b>	<b>3.6</b>

Source: Company, RSec Research

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**Exhibit 2: Segmental Revenues**

(Rsmn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
<b>Revenue</b>								
Engg. Products	4,863.3	3,784.4	28.5	4,633.7	5.0	13,148.3	9,982.1	31.7
Polymer Products	539.9	507.6	6.4	427.8	26.2	1,400.8	1,387.4	1.0
Infrastructure Products	261.0	262.9	(0.7)	94.7	175.6	598.6	496.4	20.6
<b>TOTAL</b>	<b>5,664.2</b>	<b>4,554.8</b>	<b>24.4</b>	<b>5,156.2</b>	<b>9.9</b>	<b>15,147.7</b>	<b>11,865.9</b>	<b>27.7</b>
<b>EBIT</b>								
Engg. Products	638.8	481.3	32.7	606	5.4	1,684.3	1,470.7	14.5
Polymer Products	36.0	31.5	14.2	28.2	27.7	95.1	107.5	(11.5)
Infrastructure Products	32.0	36.8	(13.0)	11.3	183.3	72.7	70.3	3.4
<b>EBIT Margin (%)</b>								
Engg. Products	13.1	12.7		13.1		12.8	14.7	
Polymer Products	6.7	6.2		6.6		6.8	7.7	
Infrastructure Products	12.3	14.0		11.9		12.1	14.2	

Source: Company, RSec Research

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**Profit & Loss Statement**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Net sales</b>	<b>17,030</b>	<b>21,373</b>	<b>25,152</b>	<b>29,145</b>
% yoy change	13.1	25.5	17.7	15.9
R/M cost	10,908	13,486	15,896	18,449
Employee expenses	732	898	1,044	1,224
Other expenses	2,930	4,168	4,880	5,567
<b>Total operating expenditure</b>	<b>14,569</b>	<b>18,551</b>	<b>21,820</b>	<b>25,239</b>
<b>EBIDTA</b>	<b>2,460</b>	<b>2,821</b>	<b>3,333</b>	<b>3,905</b>
Depreciation	315	347	362	384
EBIT	2,145	2,474	2,970	3,521
Other income	31	33	34	36
Interest costs	611	560	515	489
<b>PBT</b>	<b>1,565</b>	<b>1,947</b>	<b>2,490</b>	<b>3,068</b>
Taxes	450	652	834	1,028
Tax rate (%)	28.8	33.5	33.5	33.5
<b>Reported PAT</b>	<b>1,115</b>	<b>1,295</b>	<b>1,656</b>	<b>2,040</b>
% yoy change	17.2	16.1	27.9	23.2

**Balance Sheet**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Liabilities</b>				
Share capital	102	102	102	102
Reserves & Surplus	4,841	5,961	7,442	9,308
Total shareholder's funds	4,943	6,063	7,544	9,410
Secured loans	1,780	1,372	1,147	1,045
Unsecured loans	3,304	3,334	3,219	3,134
Total borrowings	5,085	4,706	4,366	4,179
Deferred tax liability	391	391	391	391
<b>Capital employed</b>	<b>10,419</b>	<b>11,160</b>	<b>12,301</b>	<b>13,980</b>
<b>Assets</b>				
Gross Block	5,961	6,311	6,586	6,986
Accumulated Depreciation	1,319	1,666	2,028	2,413
<b>Net Block</b>	<b>4,642</b>	<b>4,645</b>	<b>4,558</b>	<b>4,574</b>
Capital Work in Progress	144	400	500	900
<b>Net Current Assets:</b>				
Inventories	3,682	3,784	4,110	4,263
Sundry Debtors	3,730	3,817	4,573	5,397
Cash and Bank	249	391	429	507
Loans and Advances	863	1,069	1,132	1,166
<b>Total Current Assets</b>	<b>8,524</b>	<b>9,061</b>	<b>10,244</b>	<b>11,333</b>
<b>Current Liabilities &amp; Provisions:</b>				
Current liabilities	2,891	2,946	3,001	2,826
Total current liabilities	2,891	2,946	3,001	2,826
<b>Capital Deployed</b>	<b>10,419</b>	<b>11,160</b>	<b>12,301</b>	<b>13,980</b>

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**Cash Flow Statement**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT	1,565	1,947	2,490	3,068
Depreciation	315	347	362	384
Interest provided	611	560	515	489
Other adjustments	263	-	-	-
<b>Operating cf before WC requirement</b>	<b>2,755</b>	<b>2,854</b>	<b>3,367</b>	<b>3,942</b>
Change in working capital	354	340	1,091	1,186
Tax Paid	450	652	834	1,028
<b>Operating cash flow</b>	<b>1,951</b>	<b>1,862</b>	<b>1,443</b>	<b>1,728</b>
FCF	1,101	1,255	1,068	928
Capex	850	606	375	800
<b>Investing cash flow</b>	<b>(850)</b>	<b>(606)</b>	<b>(375)</b>	<b>(800)</b>
Issue/repayment of debt	(564)	(379)	(340)	(187)
Dividends paid	174	174	174	174
Interest paid	(611)	(560)	(515)	(489)
Financing cash flow	(1,350)	(1,113)	(1,030)	(850)
<b>Opening cash balance</b>	<b>498</b>	<b>249</b>	<b>391</b>	<b>429</b>
<b>Net change in cash</b>	<b>(249)</b>	<b>142</b>	<b>38</b>	<b>77</b>
<b>Closing cash balance</b>	<b>249</b>	<b>391</b>	<b>429</b>	<b>507</b>

**Key Ratio**

Y/E March	FY17	FY18E	FY19E	FY20E
EBITDA margins (%)	14.4	13.2	13.3	13.4
PBT margins (%)	9.2	9.1	9.9	10.5
PAT margins (%)	6.5	6.1	6.6	7.0
ROCE (%)	20.9	22.5	24.4	25.4
RONW (%)	22.6	21.4	21.9	21.7
Debt/Equity Ratio (%)	1.0	0.8	0.6	0.4
PE (x)	22.9	19.7	15.4	12.5
PBV (x)	5.2	4.2	3.4	2.7
EV/EBIDTA (x)	12.3	10.6	8.8	7.5
EV/Sales (x)	1.8	1.4	1.2	1.0

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## Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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