

**Skipper Ltd.****INR 155****Transmission capex play; poised to grow****BUY**

**Skipper Ltd. reported its Q3FY16 results with Net revenue of INR 3,717.7 Mn, growth of 12% YoY basis which is in line with our estimates of INR 3,698 Mn. The EBITDA stood at INR 495 Mn with margin of 13.3% compared to 14.7% YoY and 12.2% on QoQ basis which is lower than our estimates of INR 507 Mn, a decrease of 138bps YoY, on account of higher other expenses, which increased 82% on YoY basis. The PAT remained at INR 187.2 Mn against our estimate of INR 190 Mn with margins at 5% in Q3FY16 as against 5.3% YoY and 8.7% QoQ, an decrease of 25bps YoY.**

**Volume growth in transmission business, but pressure on realizations due to low commodity prices:** Despite registering strong 20% volume growth in transmission business, sales growth was lower at 12.87% YoY basis on account of softer commodity prices. This also resulted in EBIT margin expansion by 126bps to 14.7% from 13.5% in same quarter of previous year. The EBITDA was supported by INR 102 Mn of export incentive. In 9MFY16, export revenue was ~50% of the sales. With orderbook of more than INR 20,000 Mn and bids for INR 30,000 Mn, we believe the company will close the year with higher order book compared to previous year.

**Robust growth in PVC business:** In 9MFY16, PVC products business has shown robust growth of 108.7% YoY basis, while growth in Q3FY16 was 98%. On the backdrop of increased capacity and low base we expect the growth momentum to continue going forward. We expect the margins in the PVC business will be under pressure for couple of quarters to penetrate the new markets.

**PVC Pipes business expansion on path:** The company will shortly commence production of PVC products at new plant situated at Sikandrabad. This is the Company's fourth manufacturing unit for PVC products after Kolkata, Ahmedabad and Assam, taking the company's combined installed capacity for PVC products to 35,000 MT. We believe the company will close this financial year with 40,000 MT capacity and has plans to increase capacity to 1,00,000 MT by FY18-19, which we expect will be completed in the given timeframe.

**Valuation & Outlook:** We have reduced our earnings estimates by 18%, 16% and 19% respectively for FY16-18E, to reflect in softer commodity prices. Robust order book providing revenue visibility in T&D business; multifold expansion in PVC business on a pan India level providing scalable growth opportunities reinforces our belief in sustainable superior earnings performance ahead (EPS CAGR FY16-18E - 45.3%). **We maintain a BUY and TP of INR 248 based on 16x P/E of FY18E EPS and on 8.78x EV/EBITDA FY18E basis, implying 60% upside from current levels. At CMP of INR 155, the company trades at P/E of 10.02x its FY18E EPS of INR15.47.**

**Key Financials:**

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	10,404	12,702	15,030	19,216	23,395
EBITDA	1,091	1,726	1,999	2,623	3,217
Adj. PAT	258	466	750	1,200	1,583
EPS	2.52	4.55	7.33	11.73	15.47
OPM (%)	10.49	13.59	13.30	13.65	13.75
NPM (%)	2.59	7.02	6.19	6.25	6.77

Source: Company, KRChoksey Research

Target Price (INR): INR 248

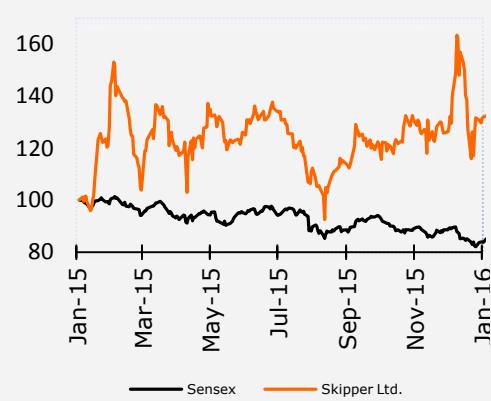
Potential Upside : 60%

**Market Data**

Shares outs (Mn)	102
Equity Cap (Mn)	102
Mkt Cap (INR Mn)	17414
52 Wk H/L (INR)	219/115
Avg Vol(3M avg K)	382.9
Face Value (INR)	1
Bloomberg Code	SKIPPER IN

**Market Info:**

SENSEX	24223
NIFTY	7361

**Share Price Performance****Share Holding pattern (%)**

Particulars	Sep15	Jun15	Mar15
Promoters	72.38	72.38	72.38
FII	0	0	0
DII	0.02	0	0
Others	27.6	27.62	27.62
Total	100	100	100

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**Q3FY16 – Detailed Result Analysis (INR Mn):**

<b>Particulars</b>	<b>Q3FY16</b>	<b>Q2FY16</b>	<b>Q3FY15</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
Net Sales	3615.7	3436.3	3226.8	5.22%	12.05%
Other operating income	102.0	62.8	0.6	62.35%	16561%
<b>Net Sales &amp; Other Operating Income</b>	<b>3717.7</b>	<b>3499.1</b>	<b>3227.4</b>	<b>6.25%</b>	<b>15.19%</b>
Total Expenditure	3222.6	3070.5	2753.3	4.96%	17.05%
Cost of Material Consumed	2293.8	2486.4	2508.3	-7.75%	-8.55%
Purchase of Stock in Trade	0.0	0.0	0.0	-	-
(Increase) / Decrease In Stocks	28.3	-196.8	-275.5	-114.37%	-110.26%
Employee Benefit Expenses	121.7	123.6	93.0	-1.58%	30.75%
Other Expenses	778.9	657.2	427.4	18.52%	82.23%
<b>PBIDT (Excl OI)</b>	<b>495.0</b>	<b>428.6</b>	<b>474.2</b>	<b>15.50%</b>	<b>4.40%</b>
<b>EBITDA Margins (%)</b>	<b>13.3%</b>	<b>12.2%</b>	<b>14.7%</b>	<b>107bps</b>	<b>-138bps</b>
Depreciation	61.3	57.8	51.7	6.07%	18.68%
EBIT & exceptional Item	433.7	370.8	422.5	16.96%	2.66%
Other Income	8.6	26.0	6.9	-66.98%	24.15%
Exceptional Items	0.0	181.4	0.0	-100.00%	0.00%
EBIT	442.3	578.2	429.4	-23.50%	3.00%
Interest	153.0	114.3	173.3	33.90%	-11.71%
EBT	289.3	463.9	256.1	-37.64%	12.95%
Tax	102.1	161.0	85.5	-36.57%	19.41%
<b>PAT</b>	<b>187.2</b>	<b>302.9</b>	<b>170.6</b>	<b>-38.20%</b>	<b>9.72%</b>
<b>PAT Margin (%)</b>	<b>5.0%</b>	<b>8.7%</b>	<b>5.3%</b>	<b>-362bps</b>	<b>-25bps</b>
<b>EPS</b>	<b>1.83</b>	<b>2.96</b>	<b>1.67</b>	<b>-38.18%</b>	<b>9.58%</b>

Source: Company, KRChoksey research

**Segmental revenue:**

<b>Particulars</b>	<b>Q3FY16</b>	<b>Q2FY16</b>	<b>Q3FY15</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
Infrastructure Projects	73.9	39.4	141.0	87.58%	-47.60%
Engg. Products	3272.4	3377.4	2899.1	-3.11%	12.87%
PVC Products	371.5	263.6	187.3	40.91%	98.35%
<b>TOTAL</b>	<b>3717.7</b>	<b>3680.4</b>	<b>3227.4</b>	<b>1.01%</b>	<b>15.19%</b>

Source: Company, KRChoksey research

**Segmental EBIT:**

<b>Particulars</b>	<b>Q3FY16</b>	<b>Q2FY16</b>	<b>Q3FY15</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
Infrastructure Projects	14.1	4.9	52.8	186.38%	-73.29%
Engg. Products	481.4	611.6	390.0	-21.28%	23.45%
PVC Products	37.7	32.2	18.7	17.17%	101.55%
<b>Total</b>	<b>533.3</b>	<b>648.7</b>	<b>461.5</b>	<b>-17.80%</b>	<b>15.56%</b>
Less: interest Exp	153.0	114.3	173.3	33.91%	-11.71%
Add/Less: other unallocable	91.0	70.5	32.1	29.08%	183.49%
<b>PBT</b>	<b>289.3</b>	<b>464.0</b>	<b>256.1</b>	<b>-37.65%</b>	<b>12.95%</b>

Source: Company, KRChoksey research

**Segment Margins:**

<b>Particulars</b>	<b>Q3FY16</b>	<b>Q2FY16</b>	<b>Q3FY15</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
Infrastructure Projects	19.1%	12.5%	37.4%	658bps	-1834bps
Engg. Products	14.7%	18.1%	13.5%	-340bps	126bps
PVC Products	10.2%	12.2%	10.0%	-206bps	16bps

Source: Company, KRChoksey research

**Profit & Loss Account:**

<b>Particulars (INR mn)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Net Sales	10,404	12,702	15,030	19,216	23,395
YoY % growth	15.75%	22.09%	18.33%	27.85%	21.74%
Raw material cost	7,870	8,551	10,146	12,952	15,768
(Inc)/Dec in stock in trade	-269	246	286	346	421
Staff cost	274	341	406	509	620
Other expense	1,439	1,838	2,194	2,786	3,369
Total Expenditure	9,313	10,976	13,031	16,593	20,178
<b>EBITDA</b>	<b>1,091</b>	<b>1,726</b>	<b>1,999</b>	<b>2,623</b>	<b>3,217</b>
YoY % growth	30.25%	58.20%	15.83%	31.21%	22.64%
EBITDA margin (%)	10.49%	13.59%	13.30%	13.65%	13.75%
Depreciation	151	220	251	277	301
<b>EBIT</b>	<b>940</b>	<b>1,506</b>	<b>1,748</b>	<b>2,346</b>	<b>2,915</b>
Interest	605	583	570	570	570
Other income	21	17	41	29	35
Exceptional item (Forex)	-11	-426	-181	-	-
<b>Profit Before Tax</b>	<b>367</b>	<b>1,366</b>	<b>1,400</b>	<b>1,805</b>	<b>2,380</b>
Tax	98	474	469	605	797
Effective Tax Rate (%)	26.71%	34.71%	33.50%	33.50%	33.50%
<b>Reported PAT</b>	<b>269</b>	<b>892</b>	<b>931</b>	<b>1,200</b>	<b>1,583</b>
YoY % growth	43.82%	231.37%	4.41%	28.93%	31.87%
PAT Margin (%)	2.59%	7.02%	6.19%	6.25%	6.77%
<b>Adjusted PAT</b>	<b>269</b>	<b>892</b>	<b>931</b>	<b>1,200</b>	<b>1,583</b>
YoY % growth	49.93%	80.65%	60.96%	60.05%	31.87%
Adj. PAT Margin (%)	2.48%	3.67%	4.99%	6.25%	6.77%
Reported EPS	2.63	8.71	9.10	11.73	15.47
Adj. EPS	2.52	4.55	7.33	11.73	15.47

Source: Company, KRChoksey research

**Balance sheet:**

<b>Particulars (INR mn)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Share capital	102	102	102	102	102
Reserves	2,209	2,936	3,707	4,748	6,171
Net worth	2,312	3,039	3,810	4,850	6,273
Long-term Loans	2,639	2,105	2,100	2,100	2,100
Short-term Loans	1,755	1,724	1,700	1,700	1,700
Total Loans	4,395	3,829	3,800	3,800	3,800
Deferred Tax Liability Net	218	265	265	265	265
<b>Liabilities</b>	<b>6,924</b>	<b>7,132</b>	<b>7,874</b>	<b>8,915</b>	<b>10,338</b>
Gross Block	3,943	4,295	4,830	5,230	5,730
Depreciation	558	782	1,033	1,310	1,611
Net Block	3,385	3,513	3,796	3,920	4,118
Capital work-in-progress	83	35	-	-	-
Inventories	2,290	2,282	3,088	3,949	4,807
Trade Receivables	2,318	3,758	3,912	5,002	6,089
Cash and bank balances	263	561	639	625	899
Loans and advances	455	458	618	737	897
Other Current assets	21	31	30	38	47
Total Current assets	5,347	7,090	8,287	10,350	12,739
Trade Payables	1,563	2,415	3,088	3,949	4,807
Other current liabilities & provisions	328	1,090	1,121	1,407	1,713
Total current liabilities	1,891	3,505	4,210	5,356	6,520
Net current assets	3,456	3,585	4,078	4,995	6,219
<b>Total Assets</b>	<b>6,924</b>	<b>7,132</b>	<b>7,874</b>	<b>8,915</b>	<b>10,338</b>

Source: Company, KRChoksey research

**Cashflow:**

<b>Particulars (INR mn)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
PBT	367	1,366	1,400	1,805	2,380
Depreciation	151	220	251	277	301
(Inc)/Dec in working capital	-134	170	-415	-931	-950
Interest paid	605	583	570	570	570
Tax paid	-62	-427	-469	-605	-797
<b>Cash flow from operations</b>	<b>928</b>	<b>1,911</b>	<b>1,337</b>	<b>1,116</b>	<b>1,504</b>
<b>Net cash from operations</b>	<b>928</b>	<b>1,911</b>	<b>1,337</b>	<b>1,116</b>	<b>1,504</b>
Capital expenditure (-)	-321	-299	-500	-400	-500
<b>Net cash after capex</b>	<b>607</b>	<b>1,612</b>	<b>837</b>	<b>716</b>	<b>1,004</b>
Inc./Dec.) in short-term borrowing	-235	-31	-24	-	-
Inc./dec.) in long-term borrowing	387	-535	-5	-	-
Inc./Dec.) in preference capital	-	-	-	-	-
Inc./dec.) in total borrowings	152	-566	-29	-	-
Equity issue/(Buyback)	0	-	-	-	-
Interest paid	-605	-583	-570	-570	-570
Dividends paid	-18	-160	-160	-160	-160
<b>Cash from Financial Activities</b>	<b>-472</b>	<b>-1,309</b>	<b>-759</b>	<b>-730</b>	<b>-730</b>
Others	-0	-5	-	-	-
<b>Opening cash</b>	<b>128</b>	<b>263</b>	<b>561</b>	<b>639</b>	<b>625</b>
<b>Closing cash</b>	<b>263</b>	<b>561</b>	<b>639</b>	<b>625</b>	<b>899</b>
<b>Change in cash</b>	<b>135</b>	<b>298</b>	<b>78</b>	<b>-14</b>	<b>274</b>

Source: Company, KRChoksey research

Particulars (INR mn)	FY14	FY15	FY16E	FY17E	FY18E
<b>Per share (INR)</b>					
EPS	2.63	8.71	9.10	11.73	15.47
Adj. EPS	2.52	4.55	7.33	11.73	15.47
Book value	22.59	29.70	37.23	47.40	61.31
<b>Valuation (x)</b>					
P/E	13.97	17.53	17.03	13.21	10.02
P/E (Adj EPS)	14.58	33.55	21.14	13.21	10.02
P/BV	1.63	5.15	4.16	3.27	2.53
EV/EBITDA	7.23	10.95	9.51	7.26	5.83
EV/Sales	0.76	1.49	1.27	0.99	0.80
<b>Return ratio (%)</b>					
RoCE	14.02	21.93	22.97	27.13	28.94
RoE	11.16	15.34	19.69	24.75	25.24
RoIC	14.59	23.88	25.08	29.24	31.78
<b>Profitability ratio (%)</b>					
EBITDA margin	10.49%	13.59%	13.30%	13.65%	13.75%
EBIT margin	9.04%	11.86%	11.63%	12.21%	12.46%
PBT margin	3.53%	10.75%	9.32%	9.39%	10.18%
PAT margin	2.59%	7.02%	6.19%	6.25%	6.77%
Adj PAT margin	2.48%	3.67%	4.99%	6.25%	6.77%
<b>Turnover ratio</b>					
Asset turnover ratio (x)	1.50	1.78	1.91	2.16	2.26
Debtor days	81	108	95	95	95
Inventory days	80	66	75	75	75
Creditors days	55	69	75	75	75
<b>Solvency ratio (x)</b>					
Debt-equity	1.90	1.26	1.00	0.78	0.61
Interest coverage	1.55	2.59	3.07	4.12	5.11

Source: Company, KRChoksey research

Skipper Ltd.				Rating Legend	
Date	CMP (Rs.)	TGT (Rs.)	Recommendation	Our Rating	Upside
03-Feb-16	155	248	BUY	Buy	More than 15%
04-Jan-16	177	285	BUY	Accumulate	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

**ANALYST CERTIFICATION:**

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