

Skipper

Buy

CMP	₹ 140
Target / Upside	₹ 162/16%
BSE Sensex	25,400
NSE Nifty	7,783

Scrip Details

Equity / FV	₹ 102mn/₹ 1/-
Market Cap	₹ 14bn
	USD 216mn
52 week High/Low	₹ 220/116
Avg. Volume (no)	148,677
NSE Symbol	SKIPPER
Bloomberg Code	SKIPPER IN

Shareholding Pattern Mar'16(%)

Promoters	72.4
MF/Banks/FIs	2.9
FII	1.0
Public / Others	23.7

Valuation (x)

	FY16	FY17E	FY18E
P/E	15.0	14.3	12.9
EV/EBITDA	8.3	7.2	6.3
ROE	27.8	23.7	21.6
ROCE	25.6	23.9	23.1

Estimates (₹ mn)

	FY16	FY17E	FY18E
Net Sales	15,062	17,679	20,391
EBITDA	2,192	2,510	2,834
PAT	951	1,001	1,107
EPS	9.3	9.8	10.8

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Overall Q4FY16 performance of Skipper limited remain in line with our estimates. Order inflow shrunk due to delay in ordering by Power Grid Corporation. We estimate 16% CAGR in sales and 8% CAGR in PAT over FY16-FY18. Given its integrated business model with superior return profile (20%+ RoE), we benchmark the company to Ratnamani Metal and Tubes (RMT) instead of pure transmission EPC players. We ascribe 2-year forward P/E of 15x (FY18E EPS) to Skipper in line with RMT. We recommend 'Buy' with TP of ₹ 162.

Order inflow satisfactory, inflow to remain ~₹ 12bn in FY17E

In FY15 the company had bagged a onetime contract of ~₹ 1.25bn (50% of order book) which helped the company improve its quarterly revenue growth rate by 10% to 15% in FY16. Accordingly, exports increased by 45% to ₹ 6.56bn (11-fold rise) during FY16. Currently ~₹ 6bn is remaining from that overseas order in the total order book of ₹ 24.2bn. The company has bided for order worth ₹ 12bn by the end of FY16. The company is envisaging ₹ 12bn worth of orders in FY17E.

We recommend 'Buy' with TP ₹ 162

Proven execution capabilities, strategic location advantage backed by a strong balance sheet gives us the comfort, that Skipper is well positioned to deliver robust top line growth with consistent margins and market share gains, both domestic and overseas markets over FY16-18E. Given its integrated business model with superior return profile (20%+ RoE), we benchmark the company to Ratnamani Metal and Tubes (RMT) instead of pure transmission EPC players. We ascribe 2-year forward P/E of 15x (FY18E EPS) to Skipper in line with RMT. We recommend 'Buy' with TP ₹162.

Q4FY16 Result (₹ Mn)

Particulars	Q4FY16	Q3FY16	Q4FY15	QoQ(%)	YoY(%)
Net Sales	5,297	3,718	4,999	42.5	6.0
Expenditure	3,566	2,444	3,704	45.9	-3.7
Other Expenditure	998	779	608	28.1	64.1
Operation Profit	734	495	687	48.3	6.9
Other Income	11	9	1	27.9	1271.3
Interest	155	153	154	1.5	1.2
Depreciation	63	61	63	3.1	-0.3
PBT	526	289	471	82.1	11.8
Tax	165	102	168	61.8	-1.8
Net Profit	361	187	302	93.1	19.4
Adj Profit	361	187	302	93.1	19.4
Gross Margin (%)	35.6	37.5	27.6		
Staff Cost (%)	31.7	41.9	28.8		
Other Expenditure (%)	18.8	21.0	12.2		
OPM(%)	13.9	13.3	13.7		
Tax Rate (%)	31.4	35.3	35.7		
NPM (%)	6.8	5.0	6.1		

Margins improved in engineering products segment

In Q4FY16 the engineering product EBIT margin expanded to 170 bps to 14.5% as compared to Q4FY15. For the full year FY16, EBIT (Adjusted to forex gain) expanded by 26% on a 15% rise in volume. This indicates the levers for margin expansion in this segment remain limited during FY17E. We estimate 15% EBIT for FY17E.

PVC Segment momentum remains, guides 70% growth in FY17

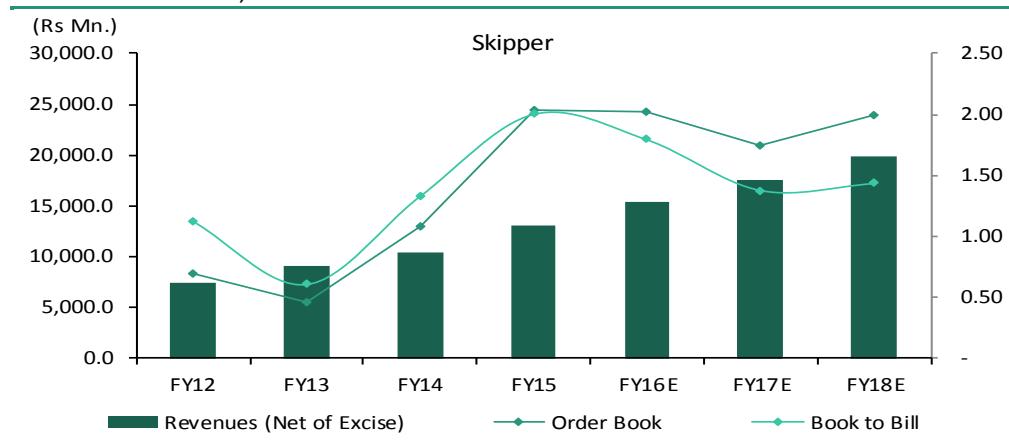
During FY16, company commissioned 3 new manufacturing plants at Ahmedabad, Guwahati and Sikandrabad under its asset light model to almost triple its manufacturing size to 35,000 MTPA. The company also has plans to take the total capacity to 100,000 TPA by FY 2019, addressing the need of the Country for superior quality of PVC pipes and products. On the back of this the management guides 70% CAGR growth in volumes with stable EBIT margin of 11%.

Exhibit 1: Possible order inflow in FY17

Description	in ₹ mn	% conversion	in ₹ mn
Un opened bid	12000	20%	2400
Opportunity from North Eastern region through Powergrid	25000	20%	5000
Possible Tenders pertains to supply from State Transcos	95000	5%	4750
Total Pipe line for FY17E	132000	9%	12150

Source: Dolat Research, Company

Exhibit 2: Revenues, order book and book to bill ratio



Source: Dolat Research, Company

Income Statement

Particulars	Mar15	Mar16	Mar17E	Mar18E
Net Sales	13,128	15,062	17,679	20,391
Total Income	13,128	15,062	17,679	20,391
Total Expenditure	10,976	12,870	15,169	17,557
Cost of materials cons	8,797	9,485	11,138	12,846
Employee Benefits Exp	341	500	636	734
Other Expenses	1,838	2,885	3,394	3,976
Other Income	17	52	84	84
EBIDTA (Excl. OI)	2,151	2,192	2,510	2,834
EBIDTA (Incl. OI)	2,168	2,244	2,594	2,918
Interest	583	570	765	885
Depreciation	220	241	287	301
PBT & EO Items	1,365	1,433	1,542	1,732
Profit Before Tax	1,365	1,433	1,542	1,732
Tax	474	482	541	625
Net Profit	891	951	1,001	1,107

Balance Sheet

Particulars	Mar15	Mar16	Mar17E	Mar18E
Sources of Funds				
Equity Capital	102	102	102	102
Other Reserves	2,936	3,713	4,544	5,489
Net Worth	3,039	3,815	4,646	5,592
Secured Loans	1,288	1,983	2,000	2,100
Unsecured Loans	2,540	2,419	3,800	3,900
Loan Funds	3,829	4,403	5,800	6,000
Deferred Tax Liability	265	315	315	315
Total Capital Employed	7,132	8,533	10,761	11,907
Applications of Funds				
Net Block	3,513	4,182	4,115	4,114
Capital Work in Progress	35	70	70	70
Current Assets, Loans & Advances				
Inventories	2,282	2,500	4,359	5,307
Sundry Debtors	3,758	3,724	4,359	5,028
Cash and Bank Balance	561	498	2,121	2,304
Loans and Advances	488	929	727	838
Other Current Assets	0	0	0	0
sub total	7,090	7,651	11,566	13,477
Less : Current Liabilities & Provisions				
Current Liabilities	3,295	3,163	4,747	5,475
Provisions	210	207	243	280
sub total	3,505	3,370	4,989	5,755
Net Current Assets	3,585	4,281	6,576	7,723
Total Assets	7,132	8,533	10,761	11,907

E – Estimates

Cash Flow

Particulars	Mar15	Mar16E	Mar17E	Mar18E
Profit before tax	1,365	1,433	1,542	1,732
Depreciation & w.o.	220	241	287	301
Net Interest Exp	583	570	765	885
Direct taxes paid	(474)	(482)	(541)	(625)
Change in Working Capital	12,361	(759)	(673)	(963)
Other	(9,553)	(95)	(186)	(192)
(A) CF from Opt. Activities	4,501	908	1,194	1,138
Capex	10,152	(704)	67	1
Free Cash Flow	14,654	204	1,261	1,139
(B) CF from Inv. Activities	10,152	(704)	67	1
Inc./ (Dec.) in Debt	(14,266)	574	1,397	200
Interest exp net	(583)	(570)	(765)	(885)
Dividend Paid (Incl. Tax)	(272)	(271)	(271)	(271)
(C) CF from Financing	(15,533)	(267)	361	(956)
Net Change in Cash	(879)	(63)	1,623	184
Opening Cash balances	1,440	561	498	2,121
Closing Cash balances	561	498	2,121	2,304

Important Ratios

Particulars	Mar15	Mar16	Mar17E	Mar18E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	16.4	14.6	14.2	13.9
Interest / Sales	4.4	3.8	4.3	4.3
Tax/PBT	34.7	33.6	35.1	36.1
Net Profit Margin	6.8	6.3	5.7	5.4
(B) As Percentage of Net Sales				
Employee Benefits Expense	2.6	3.3	3.6	3.6
Other Expenses	14.0	19.2	19.2	19.5
(C) Measures of Financial Status				
Debt / Equity (x)	1.3	1.2	1.2	1.1
Interest Coverage (x)	3.7	3.9	3.4	3.3
Average Cost Of Debt (%)	5.3	13.9	15.0	15.0
Debtors Period (days)	104	90	90	90
Closing stock (days)	63.5	60.6	90.0	95.0
Inventory Turn. Ratio (x)	5.8	6.0	4.1	3.8
WC Turnover (x)	3.7	3.5	2.7	2.6
Non Cash WC (₹ Mn)	3,024	3,783	4,456	5,419
(D) Measures of Investment				
EPS (₹) (excl EO)	8.7	9.3	9.8	10.8
CEPS (₹)	10.9	11.7	12.6	13.8
Profit Ploughback (%)	100.0	100.0	100.0	100.0
Book Value (₹)	29.7	37.3	45.4	54.7
RoANW (%)	11.9	27.8	23.7	21.6
RoACE (%)	10.3	25.6	23.9	23.1
RoAIC (%)	10.9	27.4	27.7	28.7
(E) Valuation Ratios				
CMP (₹)	140	140	140	140
P/E (x)	16.0	15.0	14.3	12.9
Market Cap. (₹ Mn)	14,271	14,273	14,273	14,273
MCap/ Sales (x)	1.1	0.9	0.8	0.7
EV (₹ Mn)	17,539	18,178	17,953	17,969
EV/Sales (x)	1.3	1.2	1.0	0.9
EV/EBIDTA (x)	8.2	8.3	7.2	6.3
P/BV (x)	4.7	3.7	3.1	2.6
Dividend Yield (%)	0.0	0.0	0.0	0.0

E – Estimates

Stock price return objective (12 Months)

Buy	> 15%
Accumulate	5 to 15%
Reduce	(-5) to 5%
Sell	< -5%

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