

Skipper

Refer to important disclosures at the end of this report

Forex losses weigh in on earnings

CMP	Target Price
Rs 95 as of (November 13, 2018)	Rs 135 (▼) 12 months
Rating	Upside
BUY (■)	41.3 %

- Skipper reported a profit in Q2, and results were in line with our expectations but fell short of Street estimates. While operational performance was broadly in line, the profitability was impacted by MTM losses of ~Rs116mn on forex derivatives.
- Engineering Product (EP) segment revenues grew 3% yoy, while revenues of the Polymer Product (PP) segment declined 16% yoy. Excluding the impact of MTM losses, EBITDAM of the EP segment was 11% (12.9% yoy), while it was a mere 1.6% (11.1% yoy) for the PP segment.
- Management has reduced the guidance for the EP segment: ~10% revenue growth vs. 15% earlier, with EBIDTAM of ~11% vs. 13% earlier. Skipper has also approved the demerger of the PP division into Skipper Pipes Ltd (appointed date is April 1, 2018).
- We are cutting our FY19/20 EPS estimates by 26%/34% to factor in lower revenues and margins in the EP and PP segments. We introduce FY21 estimates, factoring in revenue growth of 16.3% over FY20E and EBITDAM of 11.3%. Maintain Buy, with a target price of Rs135 (based on SoTP method).

- Sluggish performance:** Skipper's reported revenues of Rs5.2bn (+1.6% yoy) were below our estimates due to delays in project execution in the EP segment. While revenues of the EP segment increased 3% yoy to Rs4.8bn, the PP segment's revenues declined 16% yoy to Rs359mn. EBITM in the EP segment was down 513bps to 7.9% on MTM losses stemming from forex derivatives, higher commodity prices in fixed-price contracts, and delays in execution. Excluding the MTM losses, EP segment EBITDAM stood at 11%. Management commentary indicates that the aggregate MTM losses of ~Rs200mn in 1HFY19 would likely get reversed over the next few quarters as a major portion of the export backlog gets executed in 2HFY19 and 1HFY20.

- Maintain Buy:** The order backlog in the EP segment remains steady at ~Rs24bn (1.35x FY18 EP sales), ensuring good revenue visibility over the next 12-15 months. While order flows in the domestic T&D have been receding in the last few quarters, management commentary suggests that major domestic orders worth Rs850bn are under the bidding stage (Rs100bn for Transmission projects in Northeast India, Rs250bn for the Raigarh Pugalur HVDC Transmission project, and Rs500bn of Green Corridor projects). In the international segment, the company had bid for tenders worth Rs18bn and is hopeful of a better strike rate in light of the recent sharp depreciation of the INR. We believe that the diversification into non-T&D businesses such as Railways, Telecom, and Solar structures will help Skipper mitigate the decline in the domestic T&D. While Telecom and Solar are inherently low-margin businesses, Skipper would likely have to sacrifice margins in the initial orders in the Railway segment as it is in the process of building up references and qualifications. Going forward, we expect EP segment EBITM to settle at ~11% vs. the 14-15% range which the company had been reporting in the last four years. We maintain Buy, with a revised target price of Rs135. We derived the TP using the SoTP method based on FY21E EPS.

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	16,646	20,737	23,025	26,509	30,839
EBITDA	2,722	3,025	2,420	2,866	3,470
EBITDA Margin (%)	16.4	14.6	10.5	10.8	11.3
APAT	1,242	1,178	618	833	1,263
EPS (Rs)	12.1	11.5	6.0	8.1	12.3
EPS (% chg)	30.6	(5.4)	(47.5)	34.8	51.5
ROE (%)	27.2	20.1	9.4	11.7	15.9
P/E (x)	7.8	8.3	15.8	11.7	7.7
EV/EBITDA (x)	4.5	4.3	6.0	4.9	3.9
P/BV (x)	1.8	1.5	1.4	1.3	1.2

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY19E/FY20E (%)	(26)/(34)
Target Price change (%)	(18.4)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates

	FY19E	FY20E
Emkay	6.0	8.1
Consensus	10.3	14.0
Mean Consensus TP (12M)	Rs 188	

Stock Details

Bloomberg Code	SKIPPER IN
Face Value (Rs)	1
Shares outstanding (mn)	103
52 Week H/L	293 / 83
M Cap (Rs bn/USD bn)	10 / 0.13
Daily Avg Volume (nos.)	2,39,935
Daily Avg Turnover (US\$ mn)	0.4

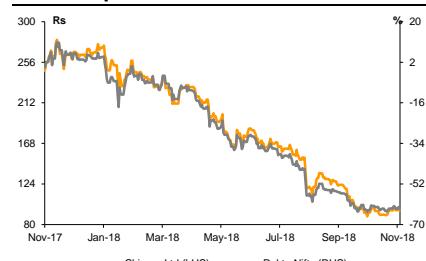
Shareholding Pattern Sep '18

Promoters	71.4%
FII	6.6%
DII	9.5%
Public and Others	12.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	(21)	(50)	(63)
Rel. to Nifty	1	(16)	(49)	(64)

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs. Estimates

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	5,240	5,570	5,114	(6)	2	Lower than expected execution in EP segment
EBITDA	388	453	473	(14)	(18)	MTM losses on forex derivatives impacts EBIDTA
EBITDA, margin	7.4%	8.1%	9.2%	-73bps	-184bps	
PAT	25	19	97	31	(74)	MTM losses and interest cost drags profitability

Source: Company, Emkay Research

Exhibit 2: Quarterly Financials - Standalone

Rs mn	Q2FY19	Q2FY18	Q1FY19	YoY (%)	QoQ (%)	YTD FY18	YTD FY19	YoY (%)
Revenues	5,240	5,156	4,787	1.6	9.5	9,144	10,027	9.6
Material cost	3,630	3,458	3,253	5.0	11.6	5,928	6,883	16.1
as % of sales	69.3	67.1	68.0	222 bps	133 bps	64.8	68.6	382 bps
Employee Cost	236	251	235	(6.0)	0.7	461	471	2.0
as % of sales	4.5	4.9	4.9	-37 bps	-39 bps	5.0	4.7	-35 bps
Other expenditure	985	765	850	28.9	16.0	1,557	1,835	17.9
as % of sales	18.8	14.8	17.8	398 bps	106 bps	17.0	18.3	128 bps
Total expenditure	4,852	4,473	4,337	8.5	11.9	7,945	9,189	15.6
EBITDA	388	683	450	(43.2)	(13.7)	1,199	838	(30.1)
Depreciation	97	121	115	(19.9)	(16.2)	228	212	(7.1)
EBIT	291	562	335	(48.2)	(12.9)	971	626	(35.5)
Other Income	3	3	3	3.4	4.0	11	7	(38.7)
Interest	257	200	274	28.1	(6.4)	369	531	43.8
PBT	38	365	64	(89.5)	(39.9)	613	102	(83.3)
Taxes	13	133	19	(89.9)	(28.9)	221	32	(85.4)
Reported PAT	25	232	45	(89.3)	(44.6)	392	70	(82.2)
Adjusted EPS	0.2	2.3	0.4	(89.3)	(44.6)	3.8	0.7	(82.2)

Margins (%)			bps	bps		bps
Gross Margins	30.7	32.9	32.0	(222)	(133)	35.2
EBIDTAM	7.4	13.2	9.4	(584)	(199)	13.1
EBITM	5.6	10.9	7.0	(534)	(143)	10.6
PBTM	0.7	7.1	1.3	(635)	(60)	6.7
PATM	0.4	4.4	0.9	(403)	(46)	4.2
Effective Tax rate	34.9	36.4	29.5	(150)	542	36.0
						31.5
						(452)

Source: Company, Emkay Research

Exhibit 3: Segmental performance - Standalone

Rs in mn	Q2FY19	Q2FY18	Q1FY19	YoY (%)	QoQ (%)	YTD FY18	YTD FY19	YoY (%)
Segment Revenue								
Engineering Products	4,776	4,634	4,041	3.1	18.2	8,285	8,817	6.4
PVC Products	359	428	561	(16.1)	(36.0)	861	920	6.8
Infrastructure Projects	105	95	185	10.4	(43.6)	338	290	(14.2)
Total	5,240	5,156	4,787	1.6	9.5	9,483	10,027	5.7
Less : inter segment revenue	-	-	-			-	-	
Total	5,240	5,156	4,787	1.6	9.5	9,483	10,027	5.7
Segment Results								
Engineering Products	380	606	402	(37.4)	(5.5)	1,046	782	(25.2)
PVC Products	(11)	28	(7)	(138.3)	45.1	59	(18)	(130.9)
Infrastructure Projects	0	11	24	(96.2)	(98.2)	41	24	(40.5)
Total	369	645	418	(42.8)	(11.7)	1,145	787	(31.2)
Less- Unall (Exp)	78	83	84	(6.4)	(7.1)	174	162	(7.3)
Add Other Income	3	3	3	3.4	4.0	11	7	(38.7)
Less- Interest Exp	257	200	274	28.1	(6.4)	369	531	43.8
Other Exceptional Item	-	-	-			-	-	
PBT	38	365	64	(89.5)	(39.9)	613	102	(83.3)
Segment Margins (%)								
				bps	bps			bps
Engineering Products	7.9	13.1	9.9	-513	-200	12.6	8.9	-376
PVC Products	(3.0)	6.6	(1.3)	-960	-168	6.9	(2.0)	-885
Infrastructure Projects	0.4	11.9	12.9	-1,147	-1,244	12.1	8.4	-370
Average	7.0	12.5	8.7	-547	-169	12.1	7.9	-422

Source: Company, Emkay Research

Exhibit 4: Adjusted segmental performance (excluding the impact of forex gains/loss)

Segment	Financial Summary	Q2FY19	Q2FY18	Change %	H1FY19	H1FY18	Change %
Engineering Products	Net Revenue	4,776	4,634	3.1%	8,817	7,995	10.3%
	EBITDA (without Forex)	527	600	-12.2%	1,005	940	6.8%
	EBITDAM	11.0%	12.9%		11.4%	11.8%	
PVC Products	Net Revenue	359	428	-16.1%	920	812	13.3%
	EBITDA (without Forex)	6	48	-87.6%	12	83	-85.1%
	EBITDAM	1.6%	11.1%		1.3%	10.3%	
Infrastructure Projects	Net Revenue	105	95	10.3%	290	338	-14.2%
	EBITDA (without Forex)	2	11	-79.5%	26	41	-36.8%
	EBITDAM	2.1%	11.5%		9.0%	12.2%	
Total	Net Revenue	5,240	5,156	1.6%	10,027	9,145	9.6%
	EBITDA (without Forex)	535	658	-18.8%	1,043	1,065	-2.0%
	EBITDAM	10.2%	12.8%		10.4%	11.6%	

Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

Y/E, Mar (Rs. mn)	FY19E			FY20E			FY21E
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduce
Revenues	24,858	23,025	-7%	29,914	26,509	-11%	30,839
EBITDA	2,724	2,420	-11%	3,507	2,866	-18%	3,470
EBITDAM (%)	11.0%	10.5%	-45 bps	11.7%	10.8%	-91 bps	11.3%
APAT	839	618	-26%	1,266	833	-34%	1,263
EPS (Rs)	8.2	6.0	-26%	12.3	8.1	-34%	12.3

Source: Company, Emkay Research

Exhibit 6: Revenues and profitability assumptions

Particulars	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Segment Revenues						
Engineering Products	13,260	15,034	18,072	19,709	22,703	26,090
Growth %	13%	13%	20%	9%	15%	15%
Infrastructure Projects	277	805	855	898	988	1,087
Growth %	-40%	191%	6%	5%	10%	10%
PVC Products	1,525	2,132	2,149	2,417	2,818	3,662
Growth %	70%	40%	1%	12%	17%	30%
Total	15,062	17,972	21,076	23,025	26,509	30,839
Segment EBITM						
Engineering Products	14.6%	15.5%	14.7%	11.0%	11.0%	11.0%
Infrastructure Projects	15.5%	14.2%	12.6%	7.5%	10.0%	10.0%
PVC Products	10.8%	7.8%	7.0%	1.0%	3.0%	7.5%
Segment EBIT						
Engineering Products	1,937	2,336	2,648	2,168	2,497	2,870
Infrastructure Projects	43	114	108	67	99	109
PVC Products	165	166	151	24	85	275
Total	2,145	2,616	2,907	2,260	2,681	3,253
Corporate Expenditure	194	209	340	350	350	350
Operating Income	1,951	2,406	2,566	1,910	2,331	2,903
EBITDAM	14.6%	16.4%	14.6%	10.5%	10.8%	11.3%
OPM	13.0%	14.5%	12.4%	8.3%	8.8%	9.4%
Other Income	52	32	22	10	14	12
Finance & interest cost	570	671	784	968	1,063	973
PBT (Before Exceptional)	1,433	1,767	1,804	951	1,282	1,943
Taxes	482	525	626	333	449	680
Tax Rate	34%	30%	35%	35%	35%	35%
PAT	951	1,242	1,178	618	833	1,263

Source: Company, Emkay Research

Exhibit 7: Segment PAT (FY2021)

Rs mn	Engineering	Infrastructure	Polymer	Other Inc	Total
EBIT	2,870	109	275	12	3,265
Less: Corporate expenditure	264	26	60		350
Less: Interest	732	73	167		973
PBT	1,874	9	47	12	1,943
Less: Tax	656	3	17	4	680
PAT	1,218	6	31	8	1,263

Source: Company, Emkay Research

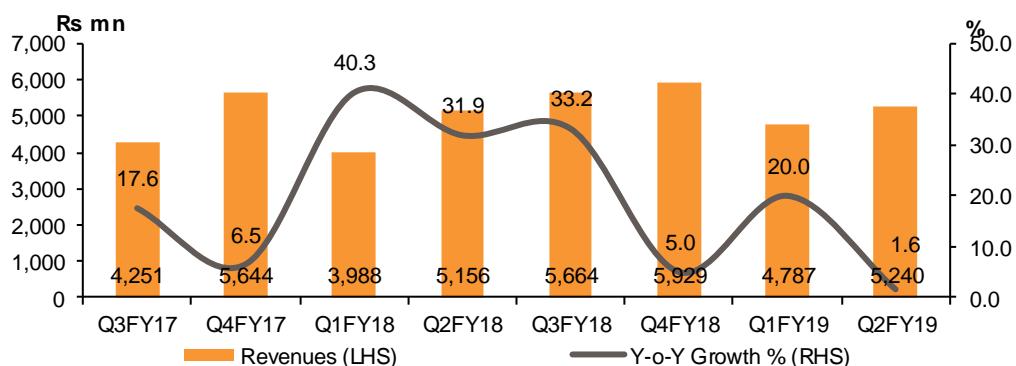
Exhibit 8: Valuation summary (FY2021)

Valuation Summary (FY21)	PAT	P/E (x)	Valuation	per share
Engineering	1,218	11.0	13,399	131
Infrastructure	6	7.0	43	0
Polymer	31	12.0	369	4
Total Value			13,810	
No of Shares			103	
Target Price			135	

Source: Company, Emkay Research

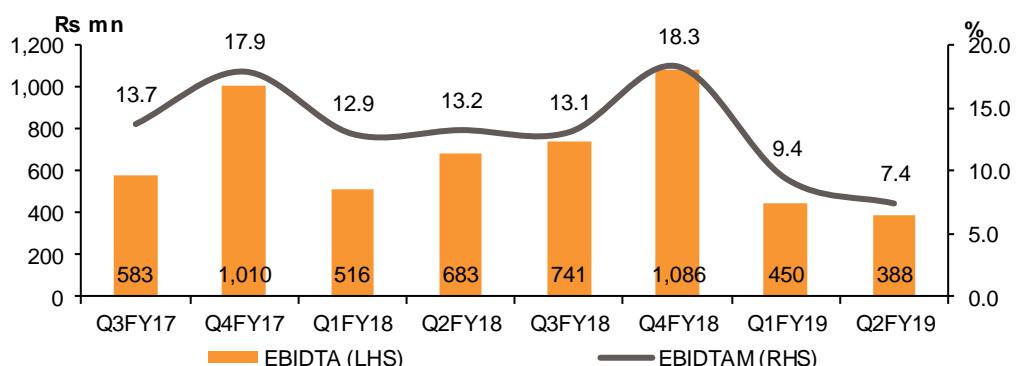
Quarterly Financials

Exhibit 9: Revenues



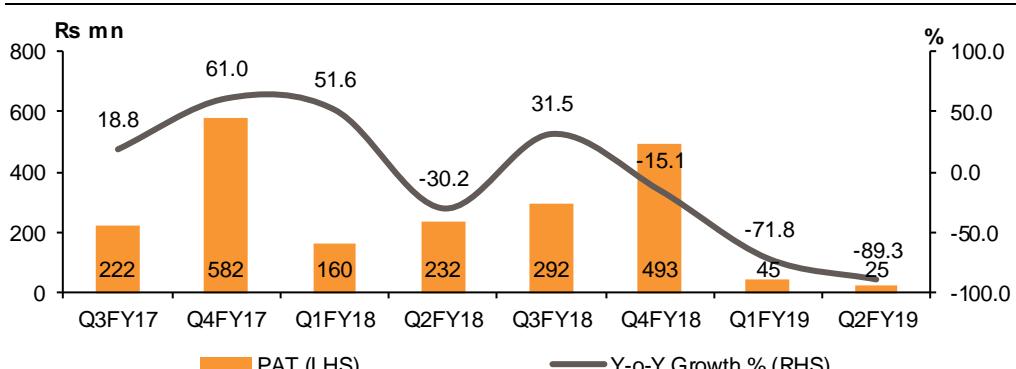
Source: Company, Emkay Research

Exhibit 10: EBIDTA and EBIDTAM

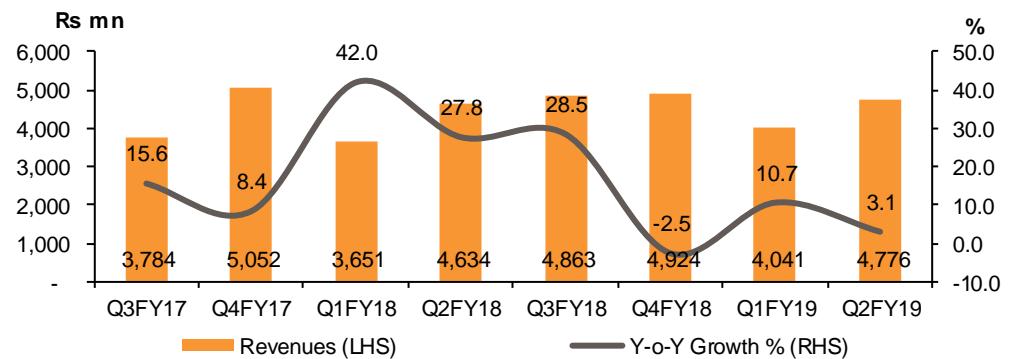


Source: Company, Emkay Research

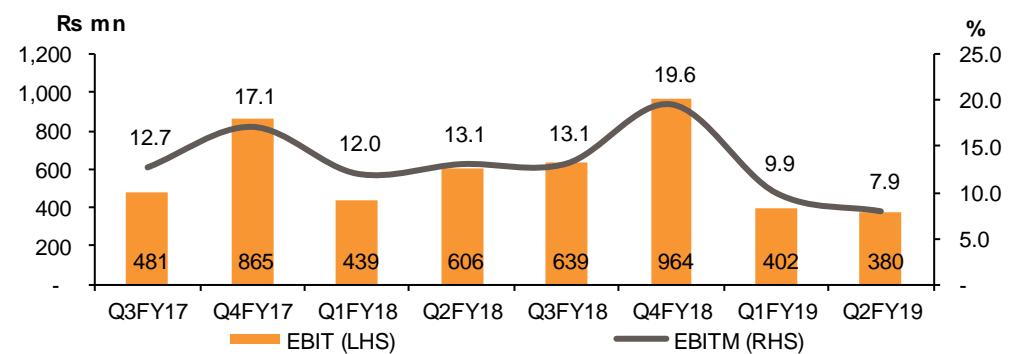
Exhibit 11: PAT



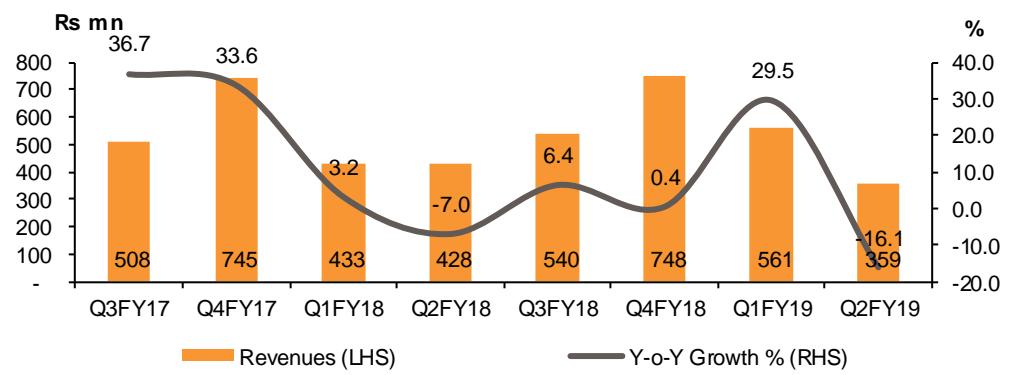
Source: Company, Emkay Research

Exhibit 12: Engineering Product - Revenues

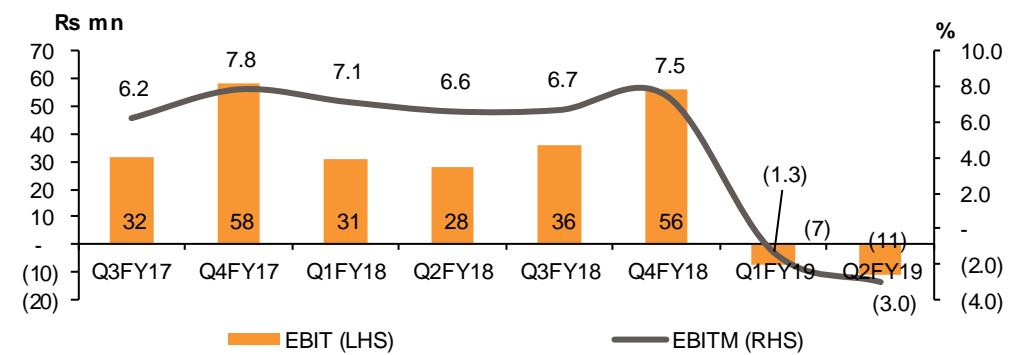
Source: Company, Emkay Research

Exhibit 13: Engineering Product - EBIT and EBITM

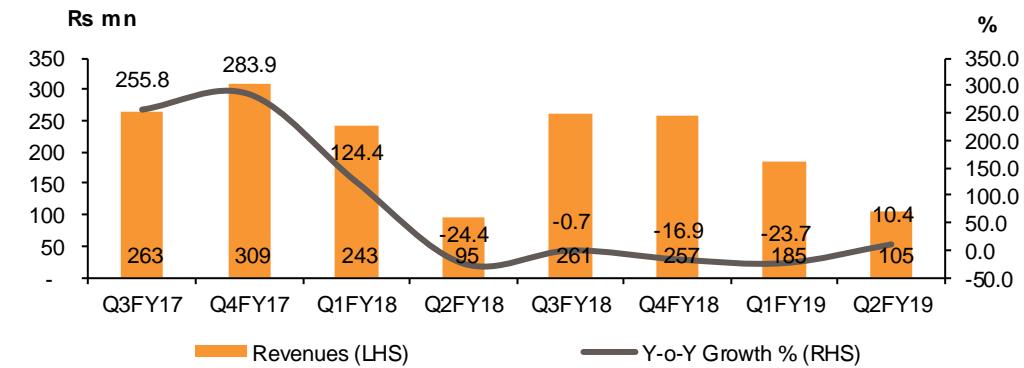
Source: Company, Emkay Research

Exhibit 14: PVC Product - Revenues

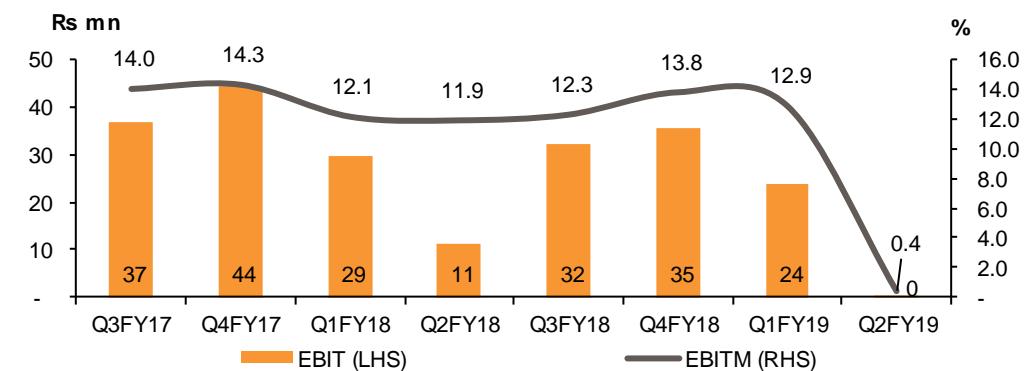
Source: Company, Emkay Research

Exhibit 15: PVC Product - EBIT and EBITM

Source: Company, Emkay Research

Exhibit 16: Infrastructure Projects - Revenues

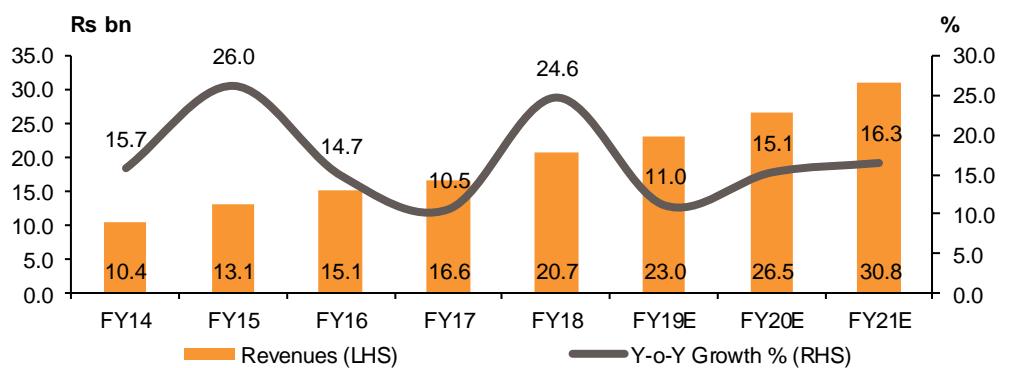
Source: Company, Emkay Research

Exhibit 17: Infrastructure Projects - EBIT and EBITM

Source: Company, Emkay Research

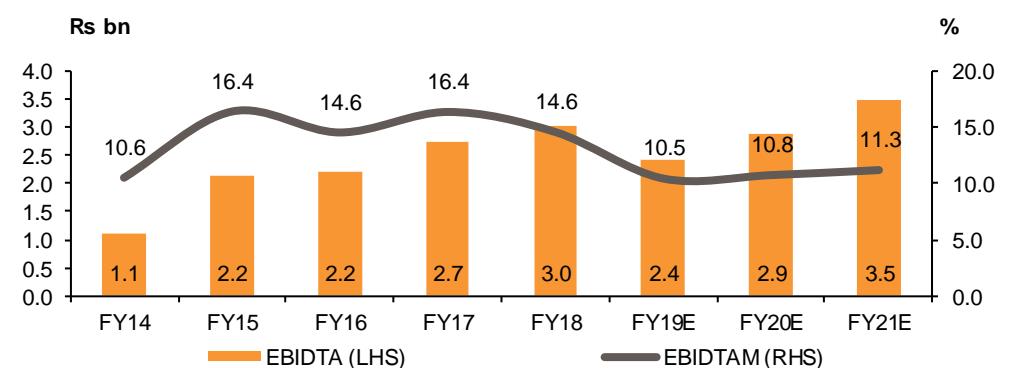
Financials

Exhibit 18: Revenues



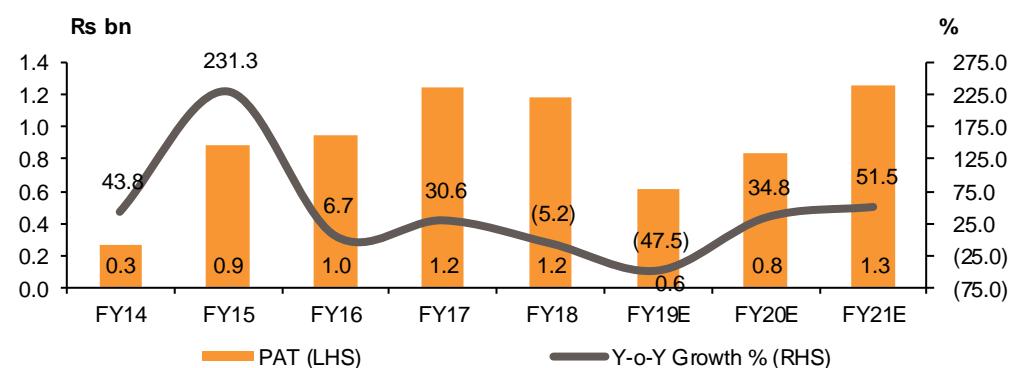
Source: Company, Emkay Research

Exhibit 19: EBIDTA and EBIDTAM



Source: Company, Emkay Research

Exhibit 20: PAT



Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	16,646	20,737	23,025	26,509	30,839
Expenditure	13,924	17,712	20,604	23,643	27,369
EBITDA	2,722	3,025	2,420	2,866	3,470
Depreciation	316	459	511	535	567
EBIT	2,406	2,566	1,910	2,331	2,903
Other Income	32	22	10	14	12
Interest expenses	671	784	968	1,063	973
PBT	1,767	1,804	951	1,282	1,943
Tax	525	626	333	449	680
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,242	1,178	618	833	1,263
Adjusted PAT	1,242	1,178	618	833	1,263

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	102	103	103	103	103
Reserves & surplus	5,219	6,270	6,704	7,340	8,357
Net worth	5,321	6,373	6,806	7,443	8,459
Minority Interest	0	0	0	0	0
Loan Funds	2,618	3,305	5,000	4,500	4,000
Net deferred tax liability	626	539	539	539	539
Total Liabilities	8,565	10,217	12,345	12,481	12,998
Net block	4,968	5,209	5,048	4,862	4,746
Investment	0	0	0	0	0
Current Assets	8,796	12,211	12,515	14,513	16,611
Cash & bank balance	249	176	214	350	136
Other Current Assets	1,095	1,204	1,325	1,525	1,774
Current liabilities & Provision	5,344	7,219	5,218	6,894	8,359
Net current assets	3,453	4,992	7,297	7,619	8,252
Misc. exp	0	0	0	0	0
Total Assets	8,565	10,217	12,345	12,481	12,998

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	1,736	1,782	941	1,268	1,931
Other Non-Cash items	0	0	0	0	0
Chg in working cap	1,169	(1,700)	(2,267)	(185)	(848)
Operating Cashflow	1,760	804	(179)	2,232	1,942
Capital expenditure	(1,176)	(571)	(334)	(350)	(450)
Free Cash Flow	584	233	(514)	1,882	1,492
Investments	0	0	0	0	0
Other Investing Cash Flow	353	131	0	0	0
Investing Cashflow	(791)	(419)	(325)	(336)	(438)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(2,064)	687	1,695	(500)	(500)
Dividend paid (incl tax)	(172)	(191)	(185)	(197)	(246)
Other Financing Cash Flow	1,807	(105)	0	0	0
Financing Cashflow	(1,100)	(392)	542	(1,760)	(1,719)
Net chg in cash	(132)	(7)	38	136	(215)
Opening cash position	498	249	176	214	350
Closing cash position	366	243	214	350	136

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	16.4	14.6	10.5	10.8	11.3
EBIT Margin	14.5	12.4	8.3	8.8	9.4
Effective Tax Rate	29.7	34.7	35.0	35.0	35.0
Net Margin	7.5	5.7	2.7	3.1	4.1
ROCE	28.1	27.6	17.0	18.9	22.9
ROE	27.2	20.1	9.4	11.7	15.9
RoIC	29.9	28.2	17.2	19.2	23.2

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	12.1	11.5	6.0	8.1	12.3
CEPS	15.2	16.0	11.0	13.3	17.8
BVPS	52.0	62.1	66.4	72.6	82.5
DPS	1.9	2.0	1.8	1.9	2.4

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	7.8	8.3	15.8	11.7	7.7
P/CEPS	6.3	6.0	8.7	7.1	5.3
P/BV	1.8	1.5	1.4	1.3	1.2
EV / Sales	0.7	0.6	0.6	0.5	0.4
EV / EBITDA	4.5	4.3	6.0	4.9	3.9
Dividend Yield (%)	2.0	2.1	1.9	2.0	2.5

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	0.4	0.5	0.7	0.6	0.5
Net Debt/EBITDA	0.9	1.0	2.0	1.4	1.1
Working Cap Cycle (days)	70.2	84.8	112.3	100.1	96.1

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	10.5	24.6	11.0	15.1	16.3
EBITDA	24.2	11.1	(20.0)	18.4	21.1
EBIT	23.3	6.6	(25.6)	22.1	24.6
PAT	30.6	(5.2)	(47.5)	34.8	51.5

Quarterly (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Revenue	5,156	5,664	5,929	4,787	5,240
EBITDA	683	741	1,086	450	388
EBITDA Margin (%)	13.2	13.1	18.3	9.4	7.4
PAT	232	292	493	45	25
EPS (Rs)	2.3	2.9	4.8	0.4	0.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	70.4	70.4	70.2	70.2	71.4
FII's	2.4	6.2	6.2	6.3	6.6
DII's	11.5	9.9	11.0	11.1	9.5
Public and Others	15.8	13.6	12.7	12.4	12.5

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Aug-18	119	165	12m	Buy	John Perinchery
21-May-18	179	279	12m	Buy	John Perinchery
20-Mar-18	229	297	12m	Buy	John Perinchery
06-Feb-18	238	297	12m	Buy	John Perinchery
30-Jan-18	221	327	12m	Buy	John Perinchery
14-Dec-17	259	327	12m	Buy	John Perinchery
27-Nov-17	277	327	12m	Buy	John Perinchery
18-Oct-17	214	282	12m	Buy	John Perinchery

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date: 14 Nov 2018 11:16:21 (SGT)
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