

Skipper - BUY

Execution continues to surprise

Skipper continued to deliver strong revenue growth, led by 38.1% yoy growth in its core engineering business. 9M FY18 revenue growth in this segment stood at 39.2% yoy. The company witnessed strong growth in both domestic and international markets. Revenue growth was largely led by ~16-18% yoy volume growth and rest was on account of increased prices. Margins in the engineering segment were under pressure from higher raw material prices. OPM in this segment shrunk 60bps yoy to 13.5% and was also lower at 13.5% for 9M FY19. Polymer business revenue growth remained subdued at 6.4% yoy, as offtake by channel partners remained muted on account of GST. Management mentioned that domestic polymer market shrunk in 9M FY18. The company witnessed lower OPM in all its segments on account of higher commodity prices. Order book grew 27% yoy to Rs.26bn (BTB of 1.9x) on the back of robust inflow of Rs.5.3bn in Q3 FY18. Order inflow was led by strong ordering in domestic North East market. Entry into North American market and increased ordering in Nepal, Bangladesh and South-East Asia provides strong growth opportunity for the company in export market. Post strong execution and order book of engineering segment, we revise our revenue estimates upward, while toning down our margins on account of increasing raw material prices. Post the recent correction valuations are attractive at 12.6x FY20E P/E. We upgrade our rating to Buy while maintaining our target price at Rs.280.

Diversification to boost topline growth

Skipper has been diversifying into various segments to monopoles, solar, railway electrification and various products in polymer business. Railway electrification business provides huge opportunity for the company. Ordering in the domestic market would be from SEBs such as Jharkhand, Bihar, AP and Telangana, while PGCIL is expected to be flat. We expect polymer business growth to pick up in FY19 as the share of organized player in PVC pipe space improves post GST.



CMP (Rs) 237	12-mts Target (Rs) 280	Upside 18.1%
Stock data (As on February 06, 2018)		
Sensex:	34,196	
52 Week h/l (Rs):	293 / 140	
Market cap (Rs mn):	24,397	
Enterprise value (Rs mn):	22,720	
6m Avg t/o (Rs mn):	12.0	
FV (Rs):	1	
Div yield (%):	0.7	
Bloomberg code:	SKIPPER IB	
BSE code:	538562	
NSE code:	SKIPPER	
Stock performance		
Shareholding pattern (%)		
Promoter		70.4
FII+DII		16.1
Others		13.6

Figure 1: Result table

Y/e 31 Mar (Rs m)	Q3 FY18	Q3 FY17	% yoy	Q2 FY18	% qoq
Net sales	5,664	4,251	33.2	5,156	9.9
Material costs	(3,902)	(2,843)	37.3	(3,458)	12.9
Personnel costs	(236)	(194)	21.6	(251)	(6.3)
Other overheads	(786)	(632)	24.4	(765)	2.8
Operating profit	741	583	27.0	683	8.5
OPM (%)	13.1	13.7	-64 bps	13.2	-17 bps
Depreciation	(118)	(76)	54.4	(121)	(2.4)
Interest	(176)	(190)	(7.3)	(200)	(12.0)
Other income	3	8	(59.0)	3	1.2
PBT	450	325	38.5	365	23.2
Tax	(158)	(103)	53.5	(133)	19.0
Reported PAT	292	222	31.5	232	25.6

Source: Company, IIFL Research

Figure 2: Cost Analysis

As a % of net sales	Q3 FY18	Q3 FY17	bps yoy	Q2 FY18	bps qoq
Material costs	68.9	66.9	203	67.1	184
Personnel Costs	4.2	4.6	(40)	4.9	(72)
Other overheads	13.9	14.9	(99)	14.8	(96)
Total costs	86.9	86.3	64	86.8	17

Source: Company, IIFL Research

Figure 3: Segmental results

Y/e 31 Mar (Rs m)	Q3 FY18	Q3 FY17	% yoy	Q2 FY18	% qoq
Revenue *					
Infrastructure Projects	261	263	(0.7)	95	175.7
Engineering Projects	4,863	3,784	28.5	4,634	5.0
PVC Projects	540	508	6.4	428	26.2
Total revenue	5,664	4,555	24.4	5,156	9.9

EBIT

Infrastructure Projects	32	35	(9.8)	11	184.5
Engineering Projects	639	466	37.0	606	5.4
PVC Projects	36	32	11.7	28	27.7
Total	707	534	32.3	645	9.5

EBIT Margins (%)

		bps yoy		bps qoq
Infrastructure Projects	12.3	13.5	(123)	11.9
Engineering Projects	13.1	12.3	81	13.1
PVC Projects	6.7	6.4	32	6.6
Blended	12.5	11.7	75	12.5
				(4)

Source: Company, IIFL Research, Note: * - Figures are not comparable due to GST.

Figure 4: Financial summary

Y/e 31 Mar (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	15,062	17,030	21,135	25,389	28,961
yoY growth (%)	18.6	13.1	24.1	20.1	14.1
OPM (%)	14.6	14.4	13.5	13.5	13.6
Pre-exceptional PAT	951	1,115	1,231	1,573	1,918
Reported PAT	951	1,115	1,231	1,573	1,918
yoY growth (%)	6.7	17.2	10.4	27.9	21.9
EPS (Rs)	9.3	10.9	12.0	15.4	18.7
P/E (x)	25.5	21.7	19.7	15.4	12.6
Price/Book (x)	6.4	4.9	4.1	3.4	2.8
EV/EBITDA (x)	12.9	11.4	10.0	8.4	7.1
Debt/Equity (x)	1.2	0.8	0.8	0.6	0.5
RoE (%)	27.8	25.5	22.8	24.2	24.1

Source: Company, IIFL Research