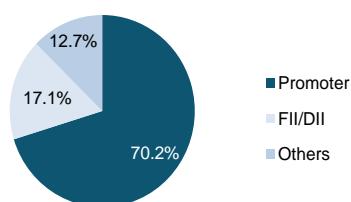


CMP INR 164
Target INR 277
Result Update – BUY
Key Share Data

Face Value (INR)	1.0
Equity Capital (INR Mn)	102.4
Market Cap (INR Mn)	16,793.6
52 Week High/Low (INR)	292/167
6 months Avg. Daily Volume (BSE)	34,687
BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPER:IN

Shareholding Pattern (as on March 2018)


Source: Company

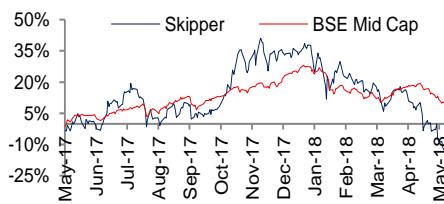
Key Financials (INR Million)

Particulars	FY17	FY18	FY19E	FY20E
Net Sales	16,646.0	20,737.2	23,931.2	27,587.1
Growth (%)	11.9%	24.6%	15.4%	15.3%
EBITDA	2,721.9	3,025.5	3,205.9	3,724.3
PAT	1,242.0	1,177.6	1,255.5	1,556.5
Growth (%)	30.6%	-5.2%	6.6%	24.0%
EPS (INR)	12.1	11.5	12.3	15.2
BVPS (INR)	52.0	62.3	72.5	85.5

Key Financials Ratios

Particulars	FY17	FY18	FY19E	FY20E
P/E (x)	20.3	14.2	13.0	10.7
P/BVPS (x)	4.7	2.6	2.3	1.9
Mcap/Sales (x)	1.5	0.8	0.7	0.6
EV/EBITDA (x)	13.7	8.0	6.9	6.0
ROCE (%)	14.6%	14.6%	14.5%	15.3%
ROE (%)	27.2%	20.1%	18.6%	19.4%
EBITDA Mar (%)	13.2%	13.3%	13.2%	13.2%
PAT Mar (%)	7.5%	5.7%	5.4%	5.7%
Debt - Equity (x)	0.8	0.7	0.6	0.5

Source: Company, SKP Research

1 Yr price performance Skipper vis-à-vis BSE Mid Cap

Anik Das

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Company Background

Skipper Limited, promoted by Mr S K Bansal of Kolkata, is India's third largest transmission tower manufacturer and tenth largest in the world, having production capacity of 2,65,000 MTPA. It also manufactures PVC pipes for water transportation in which it has aggressive growth plans.

Investment Rationale
Top-line to grow at a CAGR of ~15% over FY18-20E

- After few quarters of good sales growth, during Q4FY18, Skipper reported net sales of Rs 5,928.5 mn, registering a meagre ~5% y-o-y growth due to lower execution in engineering products business and slower growth in polymer division. Engineering vertical grew by 5.9% y-o-y (net of excise) to Rs 4,923.6 mn. Polymer segment's growth remained subdued ~9.3% y-o-y at Rs 748 mn as company faced intense competition from organized players
- Going forward, we expect Skipper sales to grow at a CAGR of ~15% during FY19-20E on the back of robust demand from Power Grid (PGCIL) and incremental capacity addition in the PVC pipe business, resulting into better capacity utilization and higher sales volume. Skipper is strategically focussed on maintaining margins with modest revenue growth mentioned above.**

Engineering Product Business: Strong order book; expansion underway to cash substantial growth opportunity

- Skipper has a strong order book of ~Rs 26.3 bn (around 1.5x FY18 revenues) of which, domestic and export order is 88% & 12% respectively. 44% of Skipper's order book is made up of orders from PGCIL. During the quarter, order inflows worth Rs 6.2 bn accrued from PGCIL, SEB's and private sector players. Skipper has a bid book of Rs 25 bn and management expects a win ratio of ~35-40%. With declining PGCIL orders, Company has been focusing on sectors like railways, telecom and solar.
- Skipper expects growth to remain strong and expected to gain further pace owing to increased opportunities from PGCIL, SEBs, TBCB projects, renewable projects, exports and infrastructure push in North East & East. During the year, Skipper received core approval from the Railways where it is well placed to tap huge opportunities with its capabilities of fabrication and galvanizing.

Polymer division to grow over next 2 years post GST related hiccups in FY18

- Skipper expects increased demand from agriculture and construction vertical for polymer business; growth is likely to come back over next two quarters to pre-GST level. Skipper is likely to register sales growth of ~17% CAGR over FY18-20E, backed by ramping up of manufacturing capacities (higher utilization levels) coupled with lower working capital requirements, exploring newer markets, strengthening of dealers network and policy push by the Government.

Margins to stabilize at ~13%+ with better operating leverage

- During FY18, EBITDA margins improved by 7 bps to INR 2,749.3 million while net profit during the same period declined by 5.2% to INR 1,177.6 million. The decrease in net profit is on account of lower forex gain, higher depreciation and higher interest cost. During FY18, Skipper reported forex gain of INR 276.1 mn as compared to INR 526.3 mn reported in FY17, while Depreciation went up by 45.4% to INR 459.1 mn and interest expense grew by 16.9% to INR 784.5 mn.
- Post expansion of PVC pipe segment, Skipper will become a pan India player, which would lead to higher overhead spending, thereby restricting EBITDA margins at level of ~13%+ in the near term. Going forward, we expect net profit to grow at a CAGR of 15.6% during FY18-20E to INR 1,574 mn.

Valuation

- With higher order inflow from PGCIL, strong entry barriers, efficient working capital management, increasing PVC Pipes capacity through asset light model and enhancing return ratios, augurs well for Skipper. We have valued the stock on the basis of P/E of 18x FY20E EPS, reducing it from 20x in previous quarter on account of lower than expected bottom-line growth rate, and recommend "BUY" on the stock with a target price of Rs 277/- in 18 months.

Exhibit: Q4FY18 Result Review

Figs. in INR Million

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	FY18	FY17	YoY (%)
Net Sales	5,928.5	5,644.2	5.0%	5,664.2	4.7%	20,737.2	16,646.0	24.6%
Total Income	5,928.5	5,644.2	5.0%	5,664.2	4.7%	20,737.2	16,646.0	24.6%
Expenditure	4,842.8	4,634.1	4.5%	4,923.5	-1.6%	17,987.9	14,450.5	24.5%
Material Consumed	3,416.0	3,766.7	-9.3%	3,902.3	-12.5%	13,245.9	10,908.2	
(as a % of Total Income)	57.6%	66.7%		68.9%		63.9%	65.5%	
Employees Cost	237.2	206.1	15.1%	235.5	0.7%	934.0	744.7	25.4%
(as a % of Total Income)	4.0%	3.7%		4.2%		4.5%	4.5%	
Other Expenses	1,189.6	661.3	79.9%	785.6	51.4%	3,808.0	2,797.6	36.1%
(as a % of Total Income)	20.1%	11.7%		13.9%		18.4%	16.8%	
EBITDA	1,085.8	1,010.1	7.5%	740.8	46.6%	2,749.3	2,195.5	25.2%
EBITDA Margin (%)	18.3%	17.9%	42 Bps	13.1%	524 Bps	13.3%	13.2%	7 Bps
Depreciation	113.5	100.3	13.2%	117.6	-3.5%	459.1	315.7	45.4%
EBIT	972.3	909.8	6.9%	623.2	56.0%	2,290.2	1,879.8	21.8%
Other Income	7.9	8.3	-5.4%	3.3	140.8%	21.9	31.8	-31.0%
Interest Expense	239.3	136.0	76.0%	176.3	35.8%	784.5	670.8	16.9%
Forex Gain / Loss						276.2	526.4	-47.5%
Profit Before Tax	740.8	782.2	-5.3%	450.2	64.6%	1,803.9	1,767.3	2.1%
Income Tax	247.3	200.6	23.3%	158.2	56.3%	626.3	525.1	19.3%
Profit After Tax (PAT)	493.5	581.5	-15.1%	292.0	69.0%	1,177.6	1,242.2	-5.2%
PAT Margins (%)	8.3%	10.3%	(198)Bps	5.15%	317 Bps	5.68%	7.46%	(178)Bps
Diluted EPS	4.8	5.7	-15.1%	2.9	68.9%	11.5	12.1	-5.2%

Source: Company Data, SKP Research

Exhibit: Earnings Revision

Particulars (Rs Mn)	FY19E			FY20E			Comments
	Old	New	YoY (%)	Old	New	YoY (%)	
Net Sales	24319.3	23931.2	-1.6%	28536.0	27587.1	-3.3%	We tweak our estimates in line with management commentary.
EBITDA	3233.6	3205.9	-0.9%	3823.8	3724.3	-2.6%	Management guided a blended EBITDA margin of ~13-14%.
EBITDA Margin (%)	13.3%	13.4%	10 Bps	13.4%	13.5%	10 Bps	
PAT	1496.1	1255.5	-16.1%	1875.0	1556.5	-17.0%	Trimming down our earnings estimates on expected higher interest expense and lower forex gain.
PAT Margin (%)	5.5%	5.2%	(25)Bps	7%	5.6%	(96)Bps	

Source: SKP Research

Exhibit: Q4FY18 Result Review								
Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	FY18	FY17	YoY (%)
Segment Revenue								
Engineering Products	4923.6	4650.5	5.9%	4863.3	1.2%	17781.7	13887.2	28.0%
Polymer Products	748.1	684.7	9.3%	539.9	38.6%	2100.2	1953.4	7.5%
Infrastructure Projects	256.8	309.0	-16.9%	261.0	-1.6%	855.4	805.5	6.2%
Segment EBIT								
Engineering Products	963.6	864.9	11%	638.8	50.9%	2647.9	2335.6	13.4%
Polymer Products	55.8	58.3	-4.3%	36.0	55.1%	150.9	165.8	-9.0%
Infrastructure Projects	35.4	44.1	-19.8%	32.0	10.4%	108.1	114.4	-5.5%
Segment Margin (%)								
Engineering Products	19.6%	18.6%	97 Bps	13.1%	644 Bps	14.9%	16.8%	(193)Bps
PVC Products	7.5%	8.5%	(105)Bps	6.7%	79 Bps	7.2%	8.5%	(130)Bps
Infrastructure Projects	13.8%	14.3%	(50)Bps	12.3%	150 Bps	12.6%	14.2%	(157)Bps

Source: Company Data, SKP Research

Other Key Highlights

Engineering Capacity

- ✓ Skipper has increased its engineering segment capacity by 35,000 TPA to 265,000 TPA during the year. The Company has reported a capacity utilization levels in the engineering segment close to 90% in FY18.
- ✓ In FY18, Skipper saw ~6-7% value growth due to increased raw material prices and rest was driven by volume growth.

Order Inflow

- ✓ Skipper sees huge opportunity in North-East India with recent Government announcement Rs.400 bn worth of work lined up to connect capital cities of 5 North Eastern states and areas bordering China, Myanmar and Bangladesh with rest of India.
- ✓ During the year, Skipper got qualified for exports to Canada and North America. It currently exports to ~15-20 countries and targets to enter newer geographies.

Polymer Business

- ✓ Polymer business' current capacity stands at ~55,000 tons and is running at utilization level of ~50%.
- ✓ Skipper has engaged Vector consultancy for polymer business, which will implement Theory of Constraints (ToC) that will help in streamlining its supply chain and sales and distribution network. Vector – which implements the principles of Theory of Constraints – has worked with several reputed brands across different sectors in India.

Capex Guidance

- ✓ The company has planned Rs.750 mn capex for FY19, of which it would spend Rs.200 mn in polymer business. Rest Rs.550 mn would be spent on core engineering segment to increase its capacity by another ~30,000 TPA

Key Concerns

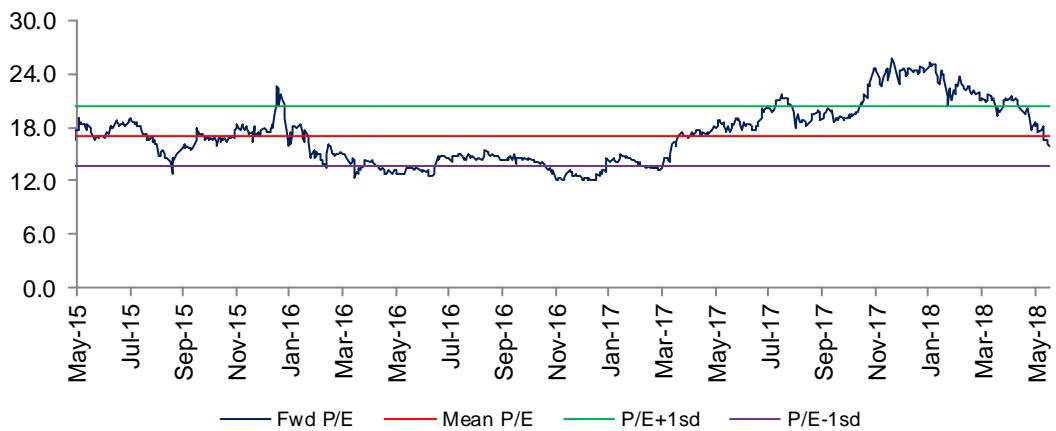
- ✓ **Slowdown in order intake & execution:** Over the last couple of years, Skipper reported healthy top-line on the back of order pick-up from PGCIL and export market. However, going forward, any slowdown in transmission capex and lower than expected execution for the export market could adversely impact order book intake and could also impact our estimates for the engineering product segment, thereby, adversely affecting the overall performance.
- ✓ **Delay in capacity addition for PVC segment:** Skipper has an aggressive capacity expansion plan for the PVC business which will bring new execution and competition challenges. If the company resorts to aggressive pricing on its way to become a national player than it would be a margin dilutive proposition for Skipper.
- ✓ **Volatile Dollar Rupee Rate:** Export market contributes ~12% of total order book. Any unfavorable USD-INR movement may have negative impact on the margins and profitability.

Valuations

- ✓ With higher order inflow from PCGIL, strong entry barriers, efficient working capital management, increasing PVC Pipes capacity through asset light model and enhancing return ratios, augurs well for Skipper.
- ✓ We have valued the stock on the basis of P/E of 18x FY20E EPS, reducing it from 20x in previous quarter on account of lower growth rate prospects, and recommend “BUY” on the stock with a target price of Rs 277/- in 18 months.

Exhibit: Valuation Charts

Rolling Forward P/E (X) Chart



Source: Company, SKP Research

Exhibit: Income Statement		Figures in INR Million				Exhibit: Balance Sheet		Figures in INR Million			
Particulars		FY17	FY18	FY19E	FY20E	Particulars		FY17	FY18	FY19E	FY20E
Total Income		16,646.0	20,737.2	23,931.2	27,587.1	Share Capital		102.3	102.6	102.6	102.6
Growth (%)		11.9%	24.6%	15.4%	15.3%	Reserve & Surplus		5,218.9	6,270.2	7,348.4	8,700.2
Expenditure		14,450.5	17,987.9	20,773.2	23,945.6	Shareholders Funds		5,321.2	6,372.7	7,451.0	8,802.8
Material Cost		10,908.2	13,245.9	15,603.2	17,986.8	Total Debt		4,153.8	4,613.3	4,742.0	4,768.9
Traded goods		-	-	-	-	Deferred Tax Liab		625.6	538.5	538.5	538.5
Change in Inventories		(821.5)	(1,442.3)	(1,507.7)	(1,738.0)	Liabilities & Provisions		3,807.6	5,910.7	6,439.4	7,081.2
Employee Cost		744.7	934.0	1,053.0	1,213.8	Total Liabilities		13,908.3	17,435.3	19,170.9	21,191.4
Admin & Other Exp.		2,797.6	3,808.0	4,116.2	4,745.0						
EBITDA		2,195.5	2,749.3	3,158.1	3,641.5	Net Block inc. Capital WIP		5112.1	5224.5	5416.5	5568.6
Depreciation		315.7	459.1	499.7	547.9	Other Non Current Assets		164.1	38.2	38.2	38.2
EBIT		1,879.8	2,290.2	2,658.3	3,093.6	Non-Current Assets		8,632.1	12,172.7	13,716.3	15,584.7
Other Income		558.0	298.1	125.2	140.3	Inventories		3,681.8	5,622.7	6,190.8	6,887.0
Interest Expense		670.8	784.5	801.0	812.1	Sundry Debtors		3,722.0	5,164.4	5,354.8	5,465.1
Exceptional items		-	-	-	-	Cash & Bank Balance		249.4	175.8	328.0	584.2
Profit Before Tax (PBT)		1,767.1	1,803.9	1,982.5	2,421.8	Other Current Assets		939.4	1,174.2	1,794.8	2,620.8
Income Tax		525.1	626.3	693.9	847.6	Loans & Advances		39.5	35.6	47.9	27.6
Profit After Tax (PAT)		1,242.0	1,177.6	1,288.6	1,574.2	Non Current Investments		-	-	-	-
Growth (%)		30.6%	-5.2%	9.4%	22.2%	Total Assets		13,908.3	17,435.3	19,170.9	21,191.4
Diluted EPS		12.1	11.5	12.6	15.4						

Exhibit: Cash Flow Statement		Figures in INR Million				Exhibit: Ratio Analysis					
Particulars		FY17	FY18	FY19E	FY20E	Particulars		FY17	FY18	FY19E	FY20E
Profit Before Tax (PBT)		1,565.2	1,803.9	1,982.5	2,421.8	Earning Ratios (%)					
Depreciation		315.5	459.1	499.7	547.9	EBITDA Margin (%)		13.2%	13.3%	13.2%	13.2%
Finance Costs		611.0	784.5	801.0	812.1	PAT Margins (%)		7.5%	5.7%	5.4%	5.7%
Chg. in Working Capital		2,204.6	1,904.3	1,415.8	1,574.7	ROCE (%)		14.6%	14.6%	14.5%	15.3%
Direct Taxes Paid		452.3	626.3	693.9	847.6	ROE (%)		27.2%	20.1%	18.6%	19.4%
Other Charges		(6.3)	(15.0)	(15.0)	(15.0)	Per Share Data (INR)					
Operating Cash Flows		1,752.3	1,278.0	721.9	727.1	Diluted EPS		12.1	11.5	12.6	15.4
Capital Expenditure		(939.2)	(1,051.8)	(527.4)	(460.8)	Cash EPS (CEPS)		15.2	16.0	17.5	20.7
Sale of Fixed Assets		-	-	-	-	BVPS		52.0	62.3	72.8	86.0
Others		141.3	142.0	-	-	Valuation Ratios (x)					
Investing Cash Flows		(797.3)	(909.9)	(527.4)	(460.8)	P/E		20.3	14.2	13.0	10.7
Changes in Equity		-	-	-	-	Price/BVPS		4.7	2.6	2.3	1.9
Inc / (Dec) in Debt		(914.2)	(206.1)	128.7	26.9	EV/Sales		1.8	1.1	0.9	0.8
Dividend Paid (inc tax)		(172.5)	(168.8)	(179.1)	(189.3)	EV/EBITDA		13.7	8.0	6.9	6.0
Financing Cash Flows		(1,086.7)	(375.0)	(50.4)	(162.4)	Dividend Yield (%)		0.6%	1.0%	1.1%	1.1%
Chg. in Cash & Cash Eqv		(131.6)	(6.8)	144.2	103.9	Balance Sheet Ratios					
Opening Cash Balance		146.5	14.8	8.0	152.2	Debt - Equity		0.8	0.7	0.6	0.5
Balances with Banks		234.5	167.8	175.8	328.0	Current Ratio		1.4	1.4	1.5	1.5
Closing Cash Balance		249.4	175.8	328.0	584.2	Fixed Asset Turn. Ratios		1.7	2.0	2.2	2.5

Source: SKP Research

Exhibit: Recommendation -History Table

Date	Rating	Issue Price	Target Price	Upside Potential	Period (months)
21-Sep-15	BUY	140	195	39%	18
6-Nov-15	BUY	155	204	32%	18
4-Feb-16	BUY	157	218	39%	18
20-May-16	BUY	140	218	56%	18
12-Aug-16	BUY	160	225	41%	18
16-Nov-16	BUY	132	191	45%	15
13-Feb-17	BUY	153	184	20%	15
17-May-17	BUY	205	238	16%	18
11-Sep-17	BUY	207	255	23%	15
1-Dec-17	NEUTRAL	275	NA	NA	NA
12-Feb-18	BUY	258	367	42%	18
30-May-18	BUY	164	277	69%	18

Exhibit: Recommendation -History Chart



Source: SKP Research

Source: BSE, SKP Research

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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Disclosure of Interest Statement

Analyst ownership of the stock	NIL
Served as an officer, director or employee	NIL

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INB/INF: 230707532, NSECDS – NSE230707532, BSE INB: 010707538, CDSL DPID: 021800, IN-DP-155-2015, NSDL DP ID: IN302646, IN-DP-NSDL: 222-2001, ARN: 0006