

Institutional Research

CMP (Rs)	158
Target (Rs)	225

Nifty: 8,678; Sensex: 28,085

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs 2)	102.3
Market Cap (Rsbn)	16.2
52-Week High / Low	220 / 116
3-M Daily Avg. Vol.	1,45,469

Relative Performance

(%)	1m	3m	12m
SKIPPER	(1.2)	10.4	(0.7)
NIFTY	4.3	10.3	1.3
Sensex	3.5	9.3	(0.5)

Shareholding Pattern

(%)	Dec15	Mar16	Jun16
Promoter	72.4	72.4	72.4
FII	1.1	0.5	0.2
DII	0.0	2.9	3.0
Others	26.5	24.2	24.4

Amber Singhania

amber.singhania@amsec.in
+91 22 4343 5296

Skipper Ltd

BUY



Ready to take off....

Skipper Limited (Skipper); reported 1QFY17 strong results with 20.2% yoy sales growth, led by healthy performance by all segments. The revenue in PVC products increase by 13.7% yoy, whereas engineering segment revenue grew by 21.6% yoy with similar volume growth. Adjusted PAT stood at Rs 127mn up 26.8% yoy. The TLT order book stands robust at Rs25bn and provides healthy visibility along with Rs10bn worth of bids already submitted. We believe, on one hand, post restructuring its engineering division is all set to capture the benefits arising from strong macro demand in TLT; both domestic as well as globally, on the other hand its strategy to become a pan India player in PVC pipes and fittings is unfolding well with the new capacities coming on-stream in time and at a low cost. Management guided a 20% volume growth in engineering products along with ~70% yoy growth in PVC segment in FY17E. We have kept our FY17E and FY18E estimates unchanged. We expect a 28.1% CAGR growth in PAT during FY16-18E. Given the strong order book & pipeline, high and improving EBITDA margins, expansion in PVC segment, and excellent macro environment in power T&D space; we remain positive on the business. We maintain our BUY rating with a TP of Rs 225, based on 15x PER of FY18E EPS.

1QFY17 reported strong results with Engineering segment EBIT margin of 15.2%: Revenue grew at 20.6% yoy to Rs2.8 bn, despite slower growth in PVC as two projects delivery got delayed. The healthy order book execution led to a 21.5% yoy growth in engineering segment revenue, whereas PVC segment revenue grew by 13.7% yoy due to delay in off takes from two projects. Engineering product segment EBIT margin remained healthy at 15.2%, owing to better sales mix. Adjusted PAT came in higher at Rs 127mn registering a growth of 26.8% yoy. Infrastructure segment revenue grew healthy at 30.7% yoy to Rs108mn with an healthy EBITM of 13.4%.

Stronger order book and pipeline will lead to robust revenues during FY16-FY18: Skipper has current order book of Rs25bn, amounting to a book-to-bill of 1.9x fy16 revenue. Order inflow in 1QFY17 was at 2.5bn, further the company has submitted bids worth Rs10 bn and expect healthy inflows in coming quarters. We expect strong order inflow from PGCIL's north east based projects and from International region with company entering into newer geographies.

Capacity expansion on track: Skipper has already expanded its PVC capacity to 41,000TPA in locations covering pan India. Further the company has planned a green field plant in Assam to enhance its tower as well as PVC fittings capacity with a total capex of Rs700mn. This plant will attract many benefits such as Excise, interest subvention and taxation holiday, making it an attractive investment. Management guided a 70% yoy growth in PVC segment revenue in FY17E. We have factored in sales volume of 28,700 TPA in FY17E and 36,900 TPA in FY18E.

Outlook and Valuations: We estimate the revenue and PAT CAGR of 23.7% and 28.1% during FY16-18E. Return ratios to improve in FY18E with ROCE at 26.7% and ROE at 28.9%. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, increasing export orders, significant improvement in EBITDAM due to restructuring of operations, benefits of backwards integration, 4x expansion in PVC segment, strong return ratios, robust growth, improving EBITDAM and young management team; we believe SKIPPER has a strong business prospects. We maintain our BUY rating and a TP of Rs225 based on 15x PER of FY18E EPS. At CMP the stock is trading at 13.8x FY17E and 10.5x FY18E.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Sales	10,415	12,702	14,624	18,300	22,379
yoy (%)	15.7	22.0	15.1	25.1	22.3
EBITDA	1,102	2,152	2,192	2,617	3,211
yoy (%)	29.3	95.2	1.9	19.4	22.7
Adjusted PAT	269	892	951	1,169	1,537
yoy (%)	43.8	231.4	6.7	22.9	31.5
Equity	102	102	102	102	102
EPS	2.6	8.7	9.3	11.4	15.0

Exhibit 2: Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	10.6	16.4	14.6	14.3	14.4
NPM (%)	2.6	6.8	6.3	6.4	6.9
PER (x)	60.1	18.1	17.0	13.8	10.5
P/BV (x)	7.0	5.3	4.2	3.4	2.7
EV/Sales (x)	1.9	1.5	1.4	1.1	0.9
EV/ EBITDA (x)	18.4	9.0	9.3	8.0	6.6
RoACE (%)	14.5	27.7	25.1	24.7	26.6
RoANW (%)	12.3	33.3	27.8	27.3	28.7

Source: Company, AMSEC Research

Exhibit 3: Skipper Ltd: 1Q FY17 quarterly results

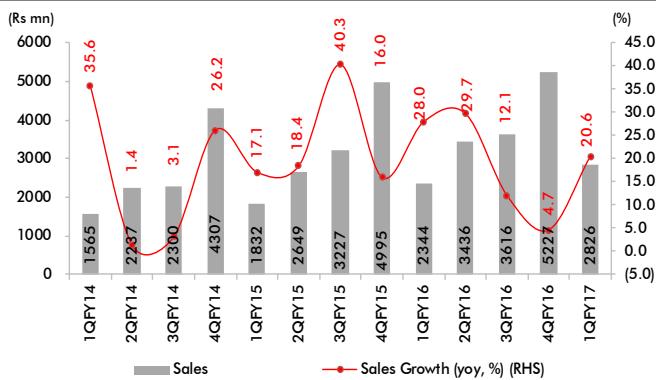
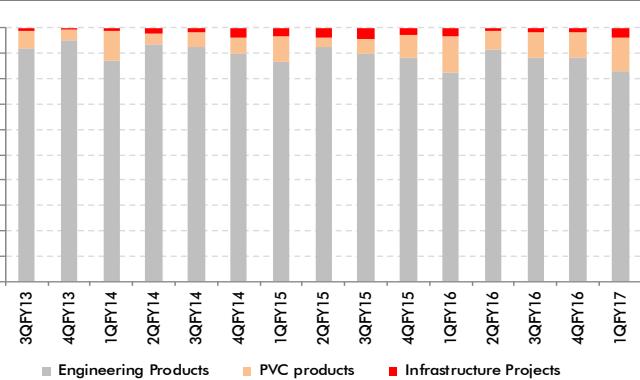
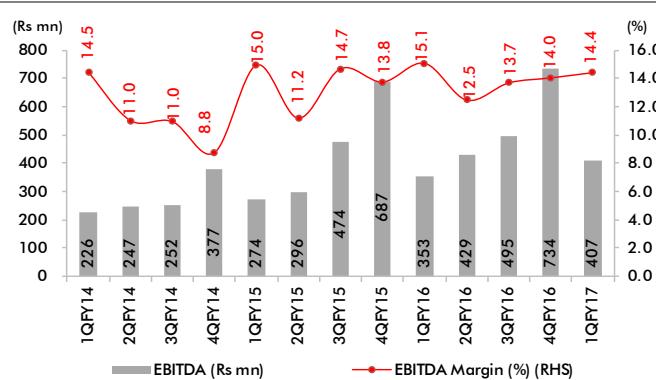
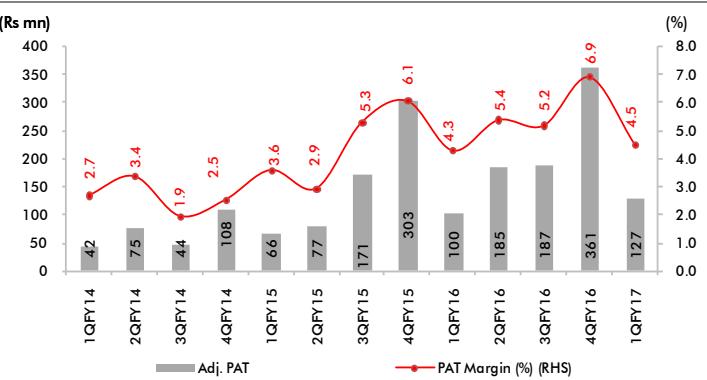
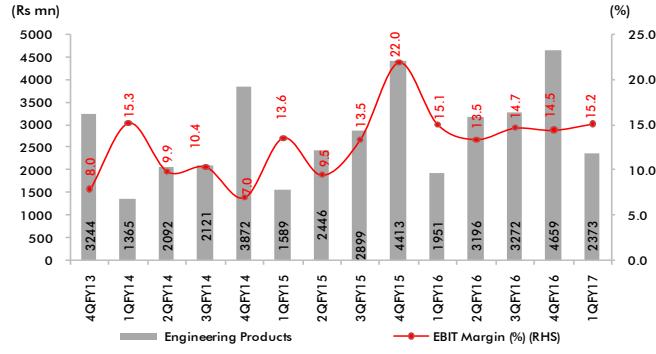
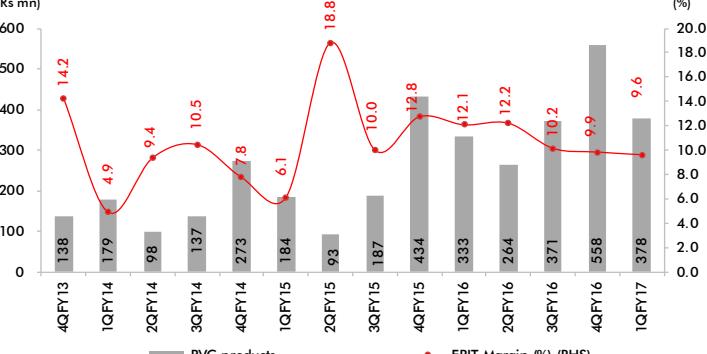
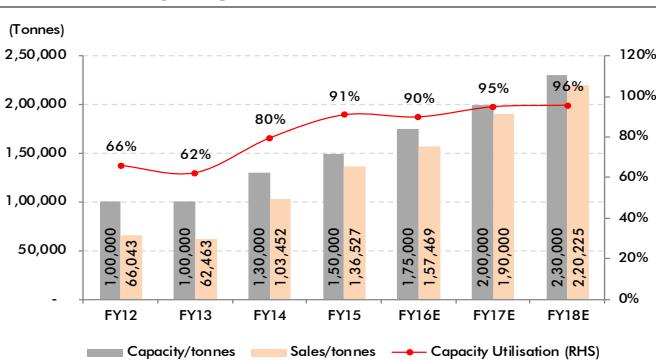
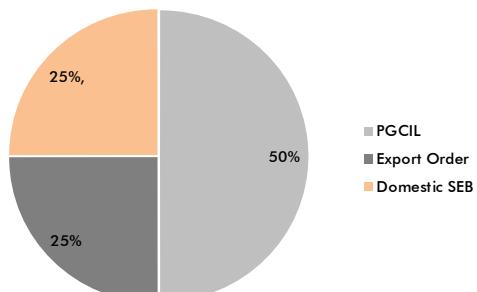
Y/E March (Rs mn)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	yoY (%)	qoq (%)	FY15	FY16	YoY (%)
Net Sales	2,344	3,436	3,616	5,227	2,826	20.6	(45.9)	12,702	14,624	15.1
Other Operational Income	22	63	102	70	18	(20.1)	(74.5)	5	257	
Total Sales	2,367	3,499	3,718	5,297	2,844	20.2	(46.3)	12,708	14,881	17.1
Stock Adjustment	(704)	(197)	28	820	(169)	(76.0)	(120.6)	246	(53)	(121.5)
Cons. of Raw Materials	2,164	2,486	2,294	2,593	1,940	(10.4)	(25.2)	8,551	9,538	11.5
Employee Cost	102	124	122	152	155	52.0	1.8	341	500	46.5
Other Expenditure	451	657	779	998	511	13.2	(48.8)	1,838	2,885	57.0
Total Expenditure	2,013	3,070	3,223	4,563	2,437	21.0	(46.6)	10,976	12,870	17.2
EBITDA	353	429	495	734	407	15.3	(44.5)	1,731	2,011	16.2
Add: Other Income	6	26	9	11	8	26.7	(29.3)	17	52	212.1
Interest	147	114	153	155	160	8.8	3.0	583	570	(2.2)
Depreciation	59	58	61	63	67	14.7	6.7	220	241	9.7
Excpt. Item	-	181	-	-	15	-	-	420	181	(56.8)
Profit Before Tax	153	464	289	526	203	31.9	(61.5)	1,366	1,433	4.9
Provision for Taxation	53	161	102	165	65	22.6	(60.5)	474	482	1.6
PAT	100	303	187	361	137	36.9	(62.0)	892	951	6.7
Adj Net Profit	100	185	187	361	127	26.8	(64.8)	617	831	34.6
Equity Capital (FV Rs 1)	102	102	102	102	102			102	102	
Basic EPS (Rs)	1.0	3.0	1.8	3.5	1.3			8.7	9.3	
Adjusted EPS (In Rs)	1.0	1.8	1.8	3.5	1.2			6.0	8.1	
EBITDA (%)	14.9	12.2	13.3	13.9	14.3	(61bp)	47bp	13.6	13.5	(11bp)
PAT (%)	4.2	5.2	5.0	6.8	4.5	23bp	(235bp)	4.9	5.6	71bp
Tax / PBT (%)	34.7	34.7	35.3	31.4	32.3			34.7	33.6	
Raw Mat. / Net Sales (%)	61.7	65.4	62.5	64.4	62.3			69.2	63.7	

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 1Q FY17 Segmental finance

Y/E March(Rs mn)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	yoY (%)	qoq (%)	FY15	FY16	yoY%
Segment Revenue										
Engineering Products	1951	3196	3272	4659	2373	21.6	(49.1)	11768	13260	12.7
PVC products	333	264	371	558	378	13.7	(32.1)	897	1525	70.0
Infrastructure Projects	83	39	74	81	108	30.7	34.4	462	277	(40.2)
Total Segment Revenue	2367	3499	3718	5297	2859	20.8	(46.0)	13128	15062	14.7
Segment Results										
Engineering Products	295	430	481	675	360	21.8	(46.7)	1809	1937	7.1
PVC products	40	32	38	55	36	(9.4)	(33.7)	103	165	60.6
Infrastructure Projects	19	5	14	4	14	(25.3)	225.2	110	43	(61.1)
Total	355	467	533	734	410	15.7	(44.1)	2022	2145	6.1
EBIT Margin										
Engineering Products	15.1	13.5	14.7	14.5	15.2	3bp	68bp	15.4	14.6	(76bp)
PVC products	12.1	12.2	10.2	9.9	9.6	(245bp)	(22bp)	11.5	10.8	(63bp)
Infrastructure Projects	23.4	12.5	19.1	5.5	13.4	(1000bp)	783bp	23.8	15.5	(833bp)
Total EBIT Margin	15.0	13.4	14.3	13.9	14.4	(63bp)	50bp	15.4	14.2	(116bp)

Source: Company, AMSEC Research; Note: Engineering products segment financials are after removing for forex gains on fwd contracts.

Exhibit 5: Quarterly Revenue Trend**Exhibit 6: Quarterly revenue breakdown (%)****Exhibit 7: Quarterly EBITDA Trend****Exhibit 8: Quarterly PAT Trend****Exhibit 9: Quarterly Engineering Products trend****Exhibit 10: Quarterly PVC products trend****Exhibit 11: Capacity & Sales volumes - TLT****Exhibit 12: PGCIL constitutes 50% of order book of Rs25bn**

Source: AMSEC Research

Financials (Consolidated)
(Rs mn)

Profit & Loss Account					Cash Flow Statement					(Rs mn)	
Particulars	FY14	FY15	FY16	FY17E	FY18E	Particulars	FY14	FY15	FY16	FY17E	FY18E
Net sales	10,415	12,702	14,624	18,300	22,379	PBT	367	1,366	1,433	1,719	2,227
Other operating income	-	426	439	-	-	Non-cash adjustments	130	203	189	285	312
Consumption of materials	7,600	8,797	9,485	12,444	15,217	Changes in working capital	(129)	187	(1,059)	(1,012)	(1,269)
Staff Expenses	274	341	500	494	627	Interest Paid	605	583	570	613	672
Other operating expenses	1,439	1,838	2,885	2,745	3,323	Tax Paid & Other Adj	(91)	(449)	(439)	(550)	(690)
Total Expenditure	9,313	10,976	12,870	15,683	19,167	Cashflow from operations	883	1,889	695	1,055	1,252
EBITDA	1,102	2,152	2,192	2,617	3,211	Capital exp. & Advances	(315)	(304)	(926)	(701)	(500)
Depreciation	151	220	241	305	332	Change in investments	-	-	-	-	-
Operating profit	951	1,932	1,951	2,312	2,879	Other investing cashflow	21	17	52	20	20
Other income	21	17	52	20	20	Cashflow from investing	(294)	(287)	(874)	(681)	(480)
EBIT	973	1,948	2,003	2,332	2,899	Issue of equity	5	0	-	-	-
Interest	605	583	570	613	672	Issue/repay debt	165	(566)	853	300	500
Exceptional items	-	-	-	-	-	Interest Paid	(605)	(583)	(570)	(613)	(672)
Profit before tax	367	1,366	1,433	1,719	2,227	Dividends paid	(18)	(156)	(168)	(239)	(299)
Tax	98	474	482	550	690	Other financing cashflow	-	-	-	-	-
Share in profit of asso.	-	-	-	-	-	Cashflow from financing	(454)	(1,305)	116	(552)	(471)
Minority interest	-	-	-	-	-	Change in cash & cash eq	135	298	(63)	(178)	301
Reported net profit	269	892	951	1,169	1,537	Opening cash & cash eq	128	263	561	498	320
Adjusted net profit	269	892	951	1,169	1,537	Closing cash & cash eq	263	561	498	320	621
Share O/s mn	102	102	102	102	102	Free cash flow to firm	567	1,586	(230)	354	752
EPS Rs (adjusted)	2.6	8.7	9.3	11.4	15.0						

Balance Sheet

Particulars	FY14	FY15	FY16	FY17E	FY18E	Particulars	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :											
Share Capital	102	102	102	102	102	EPS Rs (adjusted)	2.6	8.7	9.3	11.4	15.0
Reserves	2,209	2,936	3,713	4,642	5,880	CEPS Rs	4.1	10.9	11.7	14.4	18.3
Minority Interest	-	-	-	-	-	Book Value Rs	22.6	29.7	37.3	46.4	58.5
Total Shareholders Funds	2,312	3,039	3,815	4,745	5,982	VALUATION					
Non-Current Liabilities	2,534	1,974	2,311	2,311	2,311	EV / Net Sales	1.9	1.5	1.4	1.1	0.9
Long term borrowings	2,307	1,707	1,983	1,983	1,983	EV / EBITDA	18.4	9.0	9.3	8.0	6.6
Deferred tax liability	218	265	315	315	315	P / E Ratio	60.1	18.1	17.0	13.8	10.5
Other long term liabilities	10	-	-	-	-	P / BV Ratio	7.0	5.3	4.2	3.4	2.7
Long-term provisions	-	2	13	13	13	GROWTH YO%					
Current Liabilities	3,969	5,625	5,776	6,807	8,200	Sales Growth	15.7	22.0	15.1	25.1	22.3
Short term borrowings	1,755	1,724	2,419	2,719	3,219	EBITDA Growth	29.3	95.2	1.9	19.4	22.7
Trade payables	1,563	2,415	2,124	2,758	3,372	Net Profit Growth	43.8	231.4	6.7	22.9	31.5
Other current liabilities	626	1,277	1,039	1,280	1,547	Gross Fixed Asset Growth	7.3	8.9	13.1	16.5	8.8
Short term provisions	25	208	193	50	61	PROFITABILITY (%)					
Total Equity & Liabilities	8,815	10,637	11,903	13,863	16,494	Gross Profit/ Net sales	19.7	25.0	27.2	25.2	25.2
APPLICATION OF FUNDS :											
Non Current Assets	3,489	3,578	4,274	4,669	4,836	EBITDA / Net Sales	10.6	16.4	14.6	14.3	14.4
Gross block (Total)	3,943	4,295	4,856	5,656	6,156	EBIT / Net sales	9.1	15.2	13.3	12.6	12.9
Less : accumulated depreciati	558	782	1,004	1,309	1,641	NPM / Total income	2.6	6.8	6.3	6.4	6.9
Net block (Total)	3,385	3,513	3,852	4,347	4,515	Raw Material/Net Sales	73.0	67.0	63.0	68.0	68.0
Capital work in progress	83	35	399	300	300	Int/PBIT	63.6	30.2	29.2	26.5	23.3
Noncurrent investment	-	-	-	-	-	RONW	12.3	33.3	27.8	27.3	28.7
Long term loans and advance	-	-	-	-	-	ROCE	14.5	27.7	25.1	24.7	26.6
Other non-current assets	21	31	22	22	22	Tax / PBT	26.7	34.7	33.6	32.0	31.0
Current Assets	5,326	7,059	7,629	9,194	11,657	TURNOVER					
Current investment	-	-	-	-	-	Net Working Cycle	112	84	98	101	103
Inventories	2,290	2,282	2,500	3,159	3,985	Debtors Velocity (Days)	81	104	90	93	97
Sundry debtors	2,318	3,758	3,724	4,663	5,947	Inventory (Days)	90	76	71	74	76
Cash and bank	263	561	498	320	621	Creditors Velocity (Days)	75	100	82	81	81
Short loans and advances	455	458	907	1,053	1,104	Current Ratio	2.8	2.6	3.1	3.0	3.1
Others current assets	-	-	-	-	-	Quick Ratio	1.6	1.8	2.1	2.0	2.0
Total Assets	8,815	10,637	11,903	13,863	16,494	LIQUIDITY					
Net Working Capital*	3,193	3,785	4,673	5,874	7,243	Gross Asset Ratio	2.7	3.2	3.3	3.5	3.8
Total Gross Debt*	4,395	3,829	4,682	4,982	5,482	Total Asset Ratio	1.2	1.3	1.3	1.4	1.5
Total Net Debt	4,132	3,268	4,184	4,662	4,861	Net Debt-Equity Ratio	1.8	1.1	1.1	1.0	0.8
Capital Employed*	6,924	7,132	8,812	10,041	11,779	Interest Coverage (x)	1.6	3.3	3.5	3.8	4.3
PAYOUT											
Payout %	-	-	-	-	-	Payout %	7	17	18	20	19
Dividend %	-	-	-	-	-	Dividend %	15	130	140	200	250
Yield %	-	-	-	-	-	Yield %	0.1	0.8	0.9	0.8	1.4

Source: Company, AMSEC Research

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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