

Skipper (SKIPPER IN)

SC Net: T&D Tower Manufacturer Integrated Backwards

Fabricated Metal & Hardware

13 Dec 2017

Not Rated

Contacts: Sharan Bansal
Visit Rationale: Sector Coverage

Basic Share Information

Market cap	Rs27.20b / US\$0.42b
Daily volume (3mth)	US\$1.51m
Shares outstanding	102.4m
Free float	30%
Net debt-to-equity	65%
1 yr high	Rs280.4
1 yr low	Rs129.4
Foreign shareholding	2%
Visit Date	30 Oct 17

Note: Share price and market data as of 12 December 2017

What Is The Business Story For This Stock?

Skipper produces engineering products (83% of FY3/17 revenue) and polymer products (12%) and is involved in infrastructure projects (5%). In the engineering products segment, the company makes transmission and distribution (T&D) towers and claims to be the third-largest T&D tower manufacturer in India. As of end-FY3/17, Skipper had an order backlog of Rs25.9bn, 51% of which was for Power Grid Corp of India (PWGR IN; PGCIL). Management anticipates a slowdown in demand from PGCIL as legacy orders in this space are exhausted, but it believes this should be offset by an increase in demand related to private and state-owned power generation projects and thus expects revenue in the engineering products segment to rise 15% YoY over the next two years. As per management, Skipper's EBITDA margin is higher than peers thanks to backward integration, the company's close proximity to shipping ports and economies of scale. Management has stated that the company is not focusing on infrastructure projects at present and would take on engineering, procurement and construction (EPC) projects only if they offer high EBITDA margin of about 20–25%. The polymer products segment makes polymer pipes and fittings for plumbing, sewers, agriculture and borewells. Management guides segment revenue growth of 25–30% in FY3/18 and in FY3/19. Skipper trades at a 12-month trailing PER of 24.4x based on Bloomberg.

How Does The Value Chain Look?

Skipper designs and manufactures T&D towers for EPC contractors. The towers are sent to the project locations in a complete knocked-down form and assembled on site. The company has a factory in Uluberia with capacity of 250,000 metric tons per annum (MTPA) as of H1 FY3/18 for the production of mild steel (MS) and high tensile (HT) angles from steel billets. It also has three plants in West Bengal with capacity of 200,000 MTPA and one at Guwahati with capacity of 30,000 MTPA for fabrication and galvanizing. Skipper's polymer product capacity is 51,000 MTPA.

Segment	Market Share	Fundamentals	Major Clients	Major Suppliers	Competitors
Engineering Products	14% in India	Strong	Power Grid Corp of India (PWGR IN), Tata Power (TPWR IN), Megha Engineering (unlisted), Bharat Light and Power (unlisted)	n.a.	Karamtara Engineering (unlisted), KEC International (KECI IN), Kalpataru Power Transmission (KPP IN)
Polymer Products	n.a.	Strong	n.a.	n.a.	Supreme Industries (SI IN), Astral Polytechnik (ASTRA IN)
Infrastructure Projects	n.a.	Stable	n.a.	n.a.	Larsen & Tubro (LT IN), Kalpataru Power Transmission

Source: Company Data

	Significant Shareholdings
Founder	70.35%
Management	n.a.
Employees	n.a.
Industry	n.a.

Source: Company Data

Who Currently Owns This Stock?

As of September 2017, Skipper's founding group owned 70.35% of the shares, L&T Mutual Fund (unlisted) held 4.98%, DSP Blackrock (unlisted) held 4.30%, IDFC Mutual Fund (unlisted) held 2.00% and ICG Q (IGC LN) held 1.27%.

How Does It Fit Into Our SCNet Index

Skipper is not a constituent of Haitong International's (HTI's) SC Net Index at present. Its stock price increased 25.46% over the past three months, outperforming the India Small Cap Index by 19.16ppcts. Skipper's PER, dividend yield, ROA, OPM, and EPS growth are in the middle of the range for HTI's SC Net stock universe, while its PBR, ROE, and net gearing ratio are at the upper end of the range.

Saras Singh

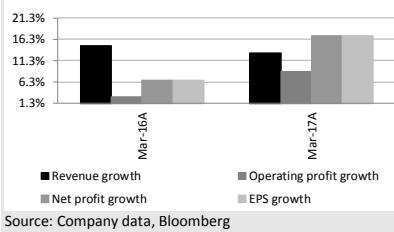
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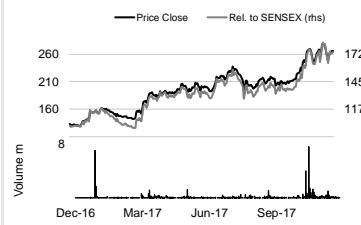
S-C Net

Earnings Trends



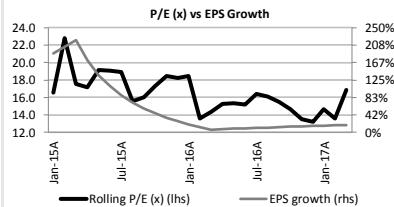
Source: Company data, Bloomberg

Price / Volume



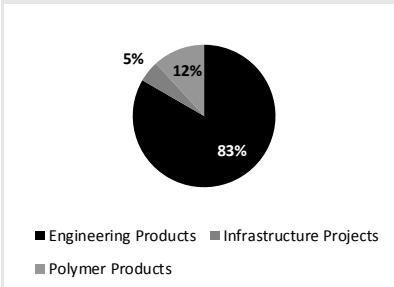
Source: Bloomberg

Valuation



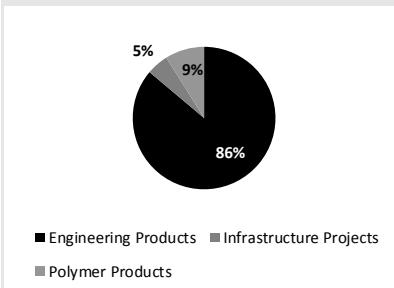
Source: Company data, Bloomberg

FY3/17 Revenue Breakdown



Source: Company data

FY3/17 EBITDA Breakdown



Source: Company data

Key Investment Metrics

Revenue Growth

Low 5-yr avg High

Skipper's FY3/17 revenue rose 13% YoY to Rs17bn, below the company's FY3/13–17 CAGR for revenue of 18%. Management guides revenue growth of 15% in the engineering segment and of 25–30% in the polymer products segment during FY3/18–19.

Profit Margins

Low 5-yr avg High

EBITDA margin was 14.4% in FY3/17, higher than the average for the company of 13.1% for the past five years. Management targets to maintain the margin levels for the next two years.

Shareholder Returns

Low 5-yr avg High

ROE was 25.5% in FY3/17, above the company's average of 21.8% for the past five years.

Balance Sheet Risks

High 5-yr avg Low

Skipper's debt to equity ratio was 0.84x in FY3/17, lower than its average of 1.37x over the past five years. Management guides capex of Rs600mn for FY3/18–19, with half of it earmarked for the engineering products segment and half for the polymer products segment.

Barriers to Entry

Low Medium High

To bid for a T&D contract, an EPC contractor needs to have a well-qualified tower manufacturer who has in the past participated in other projects of a pre-defined size. Therefore, it is difficult for new entrants to compete in this space.

International Exposure/Breakdown

High Medium Low

Skipper exports its engineering products to Africa, Australia, the Middle East, South Asia, South America and Europe. In FY3/17, 8.5% of revenue came from exports.

FX Exposure

High Medium Low

Skipper had Rs684mn of unhedged foreign currency exposure as of 31 March 2017.

Corporate Governance

Low Medium High

Four of the eight directors on the company's board are independent directors, and three of the four members on its audit committee and all of the members on its remuneration committee are independent.

Company Snapshot and Industry Context

Skipper is a T&D tower manufacturer that has integrated backwards. Its product portfolio in the EPC segment includes power transmission towers, power distribution poles, and monopoles. The company has MS and HT angle capacity of 250,000 MTPA and a fabrication and galvanizing capacity of 230,000 MTPA. The MS and HT angles capacity is for internal consumption. The polymer products segment produces and sells polymer pipes and fittings for plumbing, sewers, agriculture and borewells. Skipper participates in EPC projects provided they yield a high margin of about 20–25%.

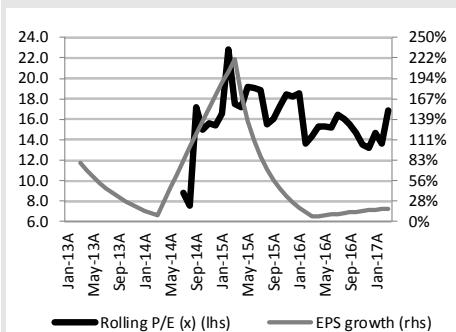
Skipper (SKIPPER IN)

	Mar-13A	Mar-14A	Mar-15A	Mar-16A	Mar-17A	Trend
Total turnover (Rsm)	9,003	10,415	13,128	15,062	17,030	
Operating profit (Rsm)	741	973	1,948	2,003	2,176	
Pre-tax profit (Rsm)	278	367	1,366	1,433	1,565	
Net income to ord equity (Rsm)	187	269	892	951	1,115	
Net profit growth	89.1%	43.8%	231.4%	6.7%	17.2%	
P/E (x)	105.4	97.6	30.5	28.6	24.4	
P/B (x)	9.57	11.37	8.94	7.12	5.50	
ROE	10.1%	12.3%	33.3%	27.8%	25.5%	
Dividend yield	0.0%	0.1%	0.5%	0.5%	0.6%	
EPS (Rs)	2.52	2.72	8.72	9.30	10.90	

Source: Bloomberg

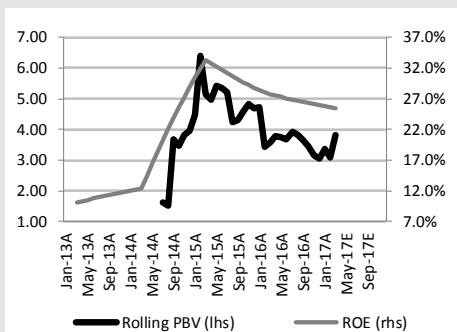
Note: Data in the table above and in the associated charts below is as of 12 December 2017

P/E (x) vs EPS Growth



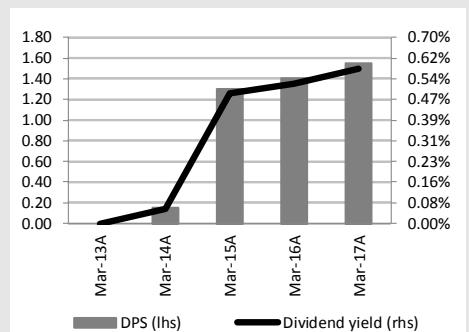
Source: Bloomberg

P/B (x) vs ROE



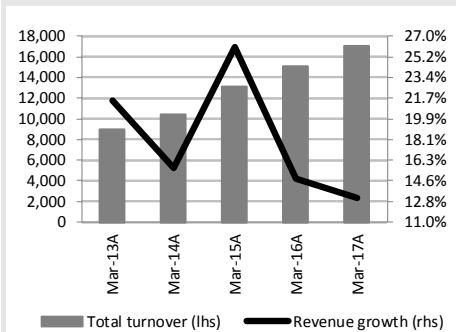
Source: Bloomberg

Dividend Payout and Yield



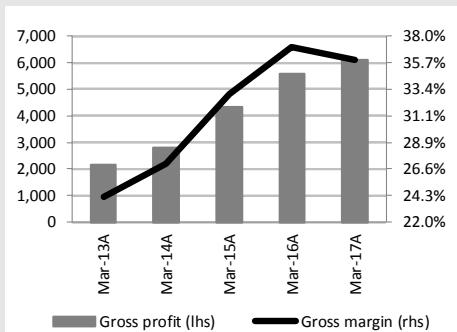
Source: Bloomberg

Turnover and Growth (INRm)



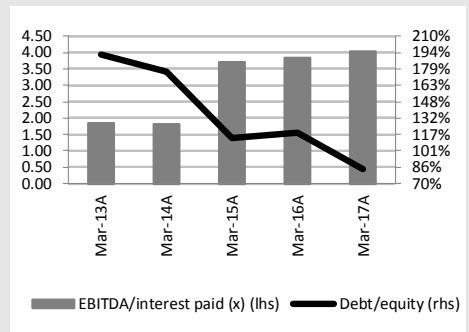
Source: Bloomberg

Gross Profit and Margin (INRm)



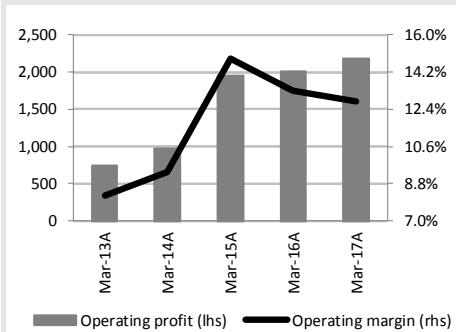
Source: Bloomberg

Net Debt To Equity and Interest Cover



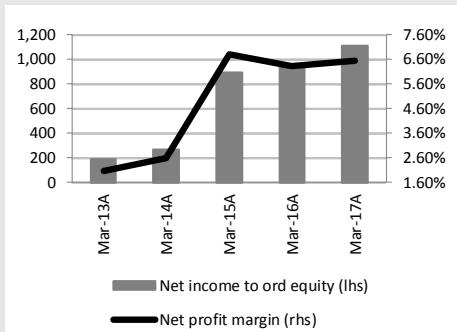
Source: Bloomberg

Operating Profit and Margin (INRm)



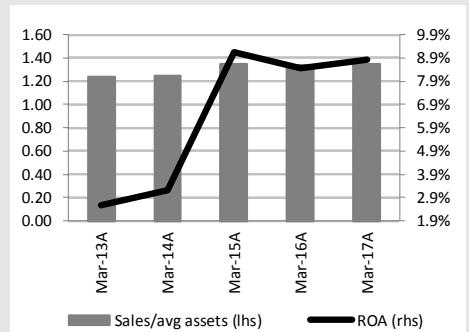
Source: Bloomberg

Net Profit and Margin (INRm)



Source: Bloomberg

ROA and Asset Turnover



Source: Bloomberg

APPENDIX

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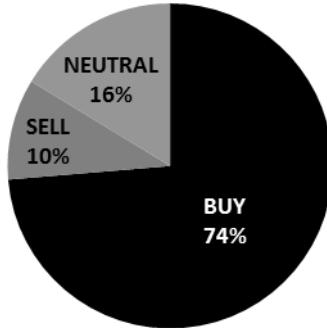
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SELL ≥ 15% absolute downside performance expected within the next 12 months

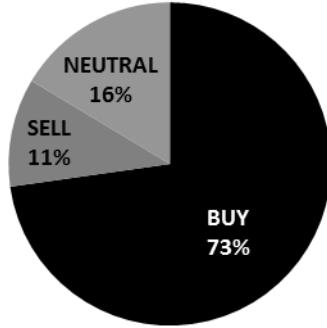
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Rating Distribution

Most Recent Full Quarter



Prior Full Quarter



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