

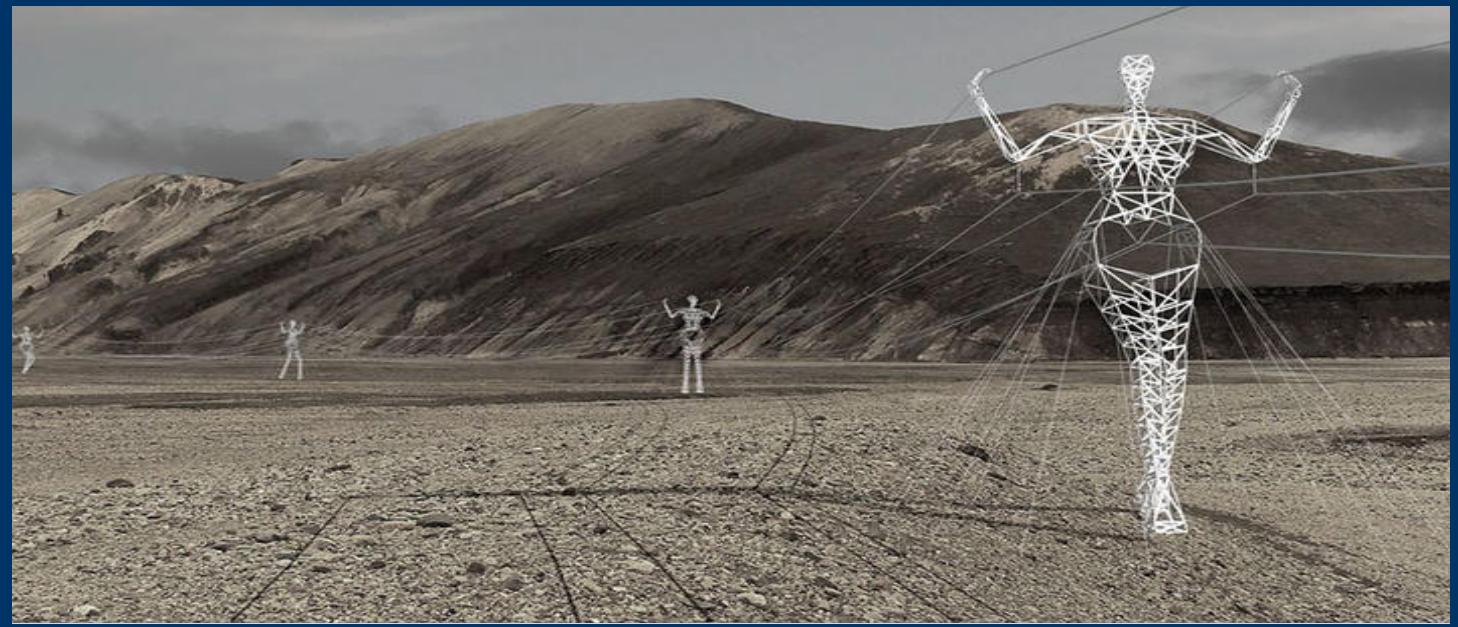
Skipper Ltd.

- Stepping Up Growth

- Initiating Coverage



WALLFORT
Financial Services Ltd.





Sector: Construction & Engineering

CMP: Rs.130

Recommendation: BUY

Target: Rs.204

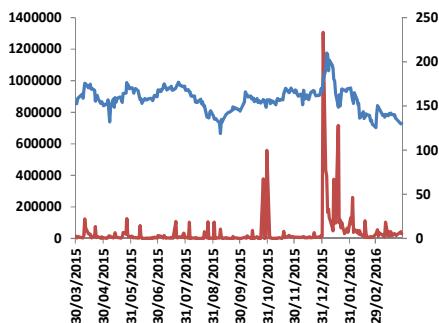
MARKET DATA

CMP (Rs)	130.00
EPS(TTM - Rs)	8.72
P/E(TTM)	14.91
52 Week High (Rs)	219.90
52 Week Low (Rs)	116.00
Equity (Rs. Mn)	102.30
Mkt. Cap (Rs. mn)	13812.70

CODES

BSE	538562
NSE	SKIPPER
Bloomberg	SKIPPER@IN

Price Volume Graph



SOURCE: BSE

Shareholding pattern

	Dec-15	Sep-15	Jun -15
Promoter	72.38	72.38	72.38
FII	0.40	0.07	0.10
DII	0.71	0.02	0.00
Others	26.51	27.53	27.52

source: BSE

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In the top 3 league in the T&D space

Skipper Limited is one of the top 3 Transmission Tower manufacturing companies in India and also among the top 10 largest tower producers in the world. It has a capacity of 175000mt with a current order book of Rs.24bn and is India's largest player in Eastern India. KEC International, Kalpataru Power & Skipper rank among the top three players in the T&D infrastructure space capturing 40-50% of its overall market. Skipper accounts for 10-15% market share of the T&D industry.

Whopping T&D spend expected

India is expected to spend a whopping \$1trillion (about Rs.65 lakh crore) by 2030 on ramping up its power infrastructure as one of the world's largest energy consumers aims to provide 24/7 electricity to its citizens. As per International Energy Agency (IEA) estimates, India would invest about USD845bn in T&D (transmission and distribution) networks between 2015 and 2040 to ensure universal access to power for customers. This ensures strong growth prospects for the players in the T&D space.

Strong growth in the PVC segment

Skipper is also the largest producer of PVC Pipes in West Bengal with an expanded capacity of 41000mt. Despite being a relatively new entrant, it has garnered ~10% market share of the PVC products business in eastern India. Oriplast is a market leader with a major share of 25% in Eastern India. Its product portfolio of pipes includes CPVC pipes as well as SWR pipes spanning across rural, agricultural and urban plumbing segments. It is fast evolving from an Eastern region to a National Brand.

PVC industry to grow in double digit

Piping industry for next decade is expected to grow @15% CAGR envisaging demand from agriculture pipes, plumbing pipes and industrial pipes. The size of the Indian PVC pipe industry is about 1.7 million MT. The share of the organised market is 60% and is further rising with an increase in brand and quality preference. Due to increased distribution reach and the consistent quality of their products, organised players have been consistently gaining market share from the unorganised sector.

Capex

Skipper would be expanding its T&D capacity by 20-25% yrly @ a capex of Rs.10000 per mt. It has already expanded its PVC pipes capacity from 12500mt to c35000mt & will be touching 41000mt by FY17. It will be entailing a total capex of Rs.228mn over FY16-17 for the same. It is also looking to further expand its production of PVC pipes to 100000mt in the next three years making it a PAN India presence.

Valuation:

Massive investment plan of Rs.1lac cr in the T&D sector through DDUGJY scheme & IPDS scheme, green energy corridor investments of Rs.38000cr & additional rollout Rs.1lac cr bids of transmission projects are the key triggers for the T&D segment. Its PVC segment revenues are expected to double with capacity expansion & CAGR market industry growth of 12-15% going ahead. We Initiate Coverage with a BUY rating, with a price target of Rs.204 based on its average PE of 12x FY18E EPS of Rs.17 per share.

Key Highlights

Year end (Rs. Mn)	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	10404	12702	14142	17611	20812
Growth (%)	15.75%	22.09%	11.34%	24.52%	18.18%
EBIDTA	1102	1732	2131	2672	3205
Margin (%)	10.59%	13.63%	15.07%	15.17%	15.40%
Net Profit	269	892	1143	1388	1722
Margin (%)	2.59%	4.74%	7.25%	7.88%	8.27%
EPS	2.63	8.71	11.17	13.56	16.83
PE	58	18	12	11	8

Source: Company/Wallfort Research



Skipper Ltd.

Established in 1981, Skipper Ltd. is one of the world's leading manufacturers for Transmission & Distribution Structures (Towers & Poles) in its Engineering Products segment & a leading and respected brand in the Plastic Water Pipes sector as well as trusted partner for executing critical Infrastructure EPC projects. Skipper's market reach spans across 20 countries around the globe from South America, Europe, Africa, the Middle East, South and Southeast Asia and Australia. Within India, it is a preferred manufacturer of choice for its customers pan India, from J&K to Tamil Nadu and from North East India to Gujarat.

PRODUCT RANGE		
Engineering Products	PVC Products	Infrastructure Projects
Power Transmission Towers	UPVC Pipes	Transmission Line EPC
Power Distribution Poles (Swaged, High Mast and Octagonal)	CPVC Pipes	Underground Utility Laying by HDD (Horizontal Directional Drilling)
Transmission Line Monopoles	SWR Pipes	Water EPC
Mild Steel and High Tensile Angles	Fittings	
Fasteners		
Tower Accessories		
Galvanised and Black ERW Pipes		

Manufacturing Units	Engineering Products * (MTPA)	PVC Pipes & Fittings Products* (MTPA)
Uluberia - Kolkata (WB)	70,000	15,000
Unit 1 - Kolkata (WB)	69,000	-
BCTL - Kolkata (WB)	36,000	-
Ahmedabad	-	10,000
Guwahati	-	4000
Sikandrabad	-	6000
Hyderabad (yet to start)	-	6000
Total	1,75,000	41,000

*Engineering products capacities does not include manufacturing capacity of Steel Tube which is used for Job work and Hot Rolled Products which are used mainly for internal consumption.

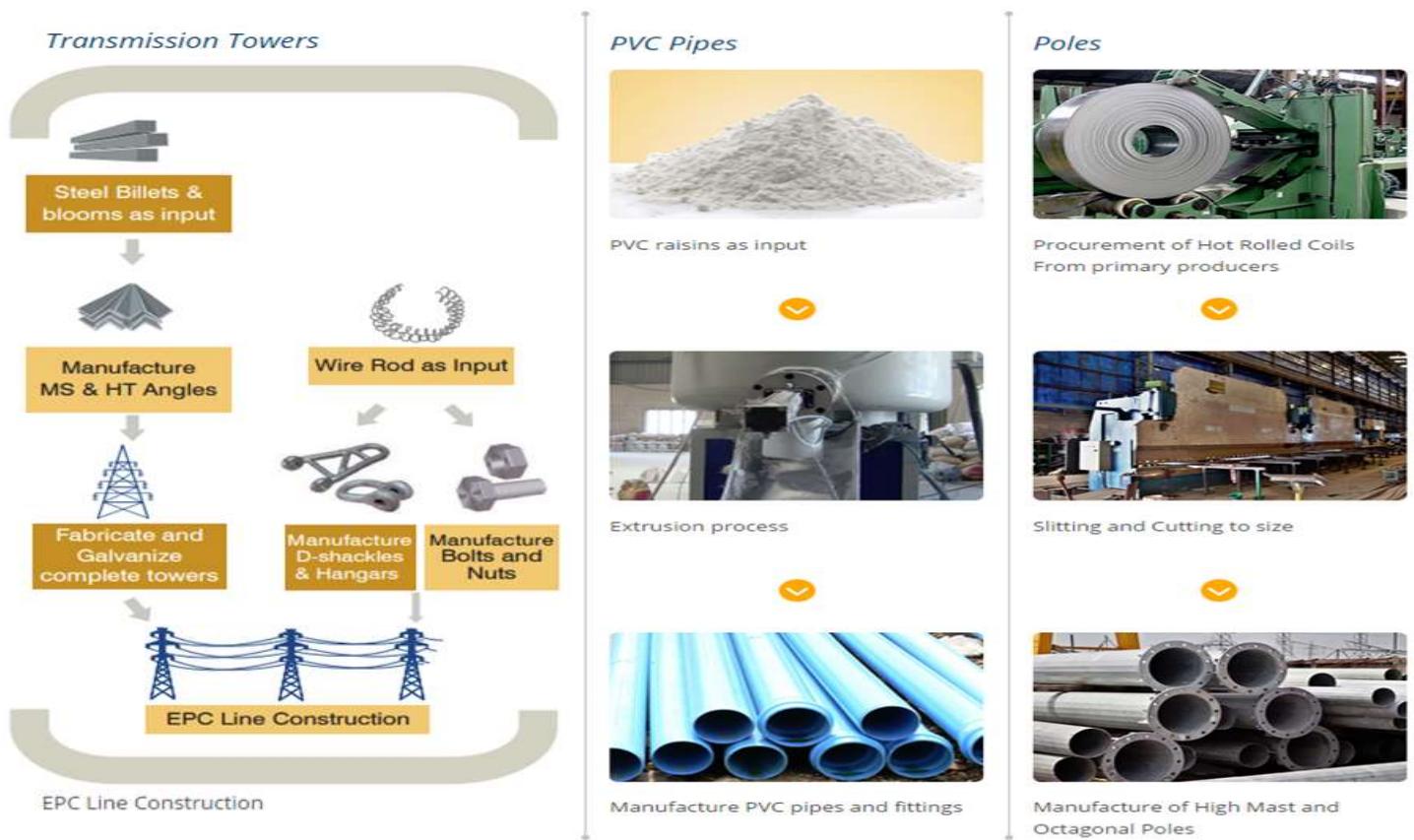
Source: Company/ Wallfort Research



Manufacturing facilities

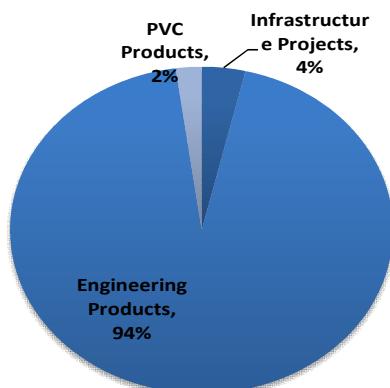
Skipper has three state-of-the-art manufacturing facilities - two at NH-6, Jalan Complex, Jangalpur, Howrah and a major one at NH-6, Uluberia, Howrah.

Manufacturing Cycle

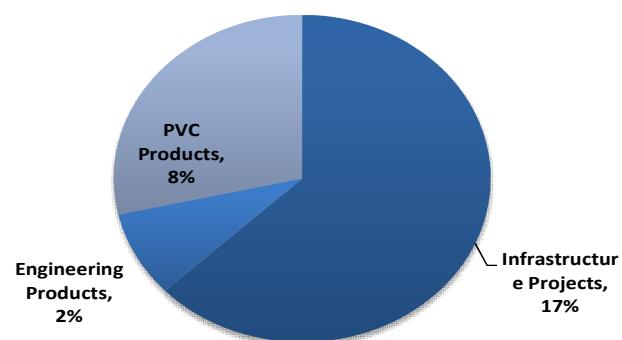


Source: Company/ Wallfort Research

FY15 Revenue Mix



FY15 Profit Margins



Source: Company/ Wallfort Research



Engineering Products Division

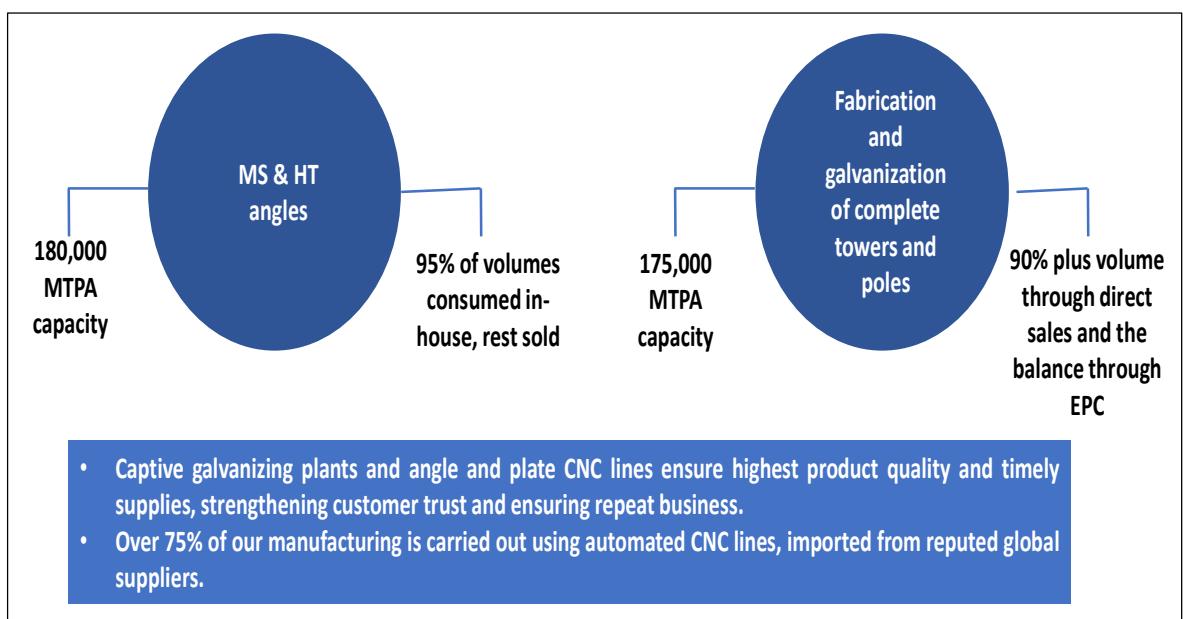
Skipper Limited is one of the top 3 Transmission Tower manufacturing companies in India and also among the top 10 largest tower producers in the world. Skipper's strong focus and commitment towards product quality has made it the manufacturing partner of choice to Powergrid Corporation of India (PGCIL) - the world's largest transmission utility and also Ramboll - world's largest tower design company. It offers a wide range of products from 66KV to 1200KV Towers (Single Circuit, Double Circuit, Multi-Circuit towers suitable for Twin, Quad and Hex Conductor configurations). Majority of its projects are completely customised and are designed in line with specific customer requirements.

Backward Integration

It has emerged as the only company in India to have complete control over the value chain from angles to tower production to fasteners to EPC with a high degree of performance. It controls over 80% of the cost on any Tower Line project. This enables swift decision-making and timely delivery.

It has an in-house production of tower accessories like hangers and D-shackles making it the only 100% integrated T&D player in India, having angles, towers, fasteners, accessories and EPC line construction.

Engineering Products division has 7 in-house galvanising plants up to 14m length, 25 Angle and Plate CNC lines Zero machine downtime with three units back-up in-house MS and HT Angle Rolling (up to 200 x 200 x 25) that guarantee all time availability.



Source: Company/ Wallfort Research



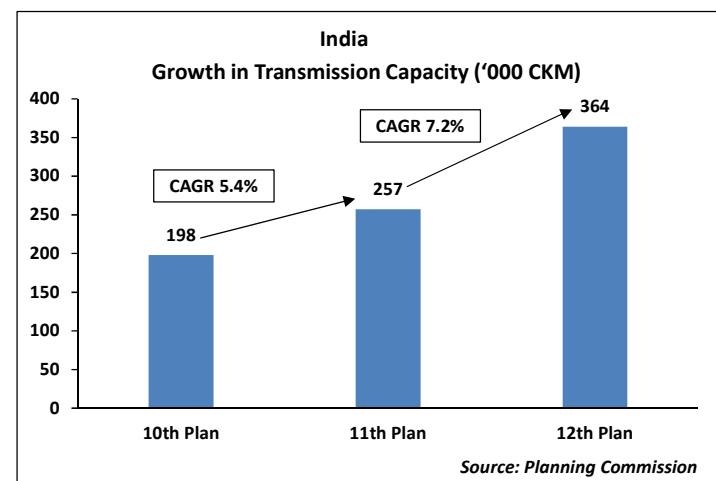
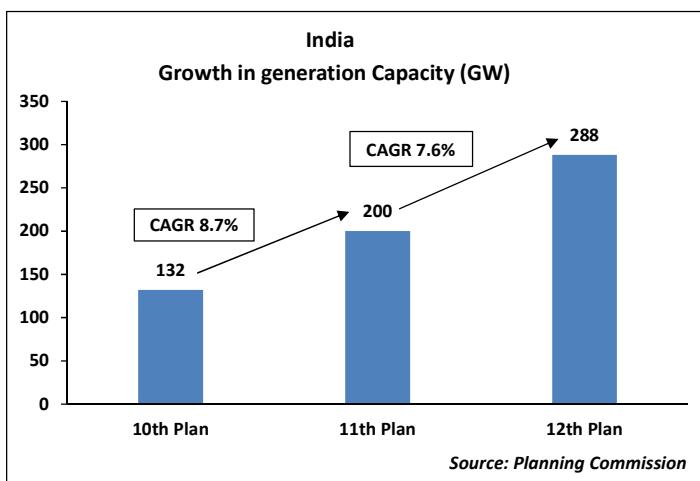
Key Clients

Key customers of the Company include Power Grid Corporation of India Ltd, Tata Projects Ltd., Rajasthan Rajya Vidyut Prasaran Nigam, EMCO, EMC among others.

Transmission and distribution – Key Drivers

The investment required for the transmission sector in the 12th five year plan has been envisaged at Rs.180000cr compared to Rs.140000cr allocated in the 11th five year plan period. As per the actual capital expenditure (capex) plans of the transmission utilities, Rs. 190000cr is projected to be invested over 2014–17 period by the central and state utilities. Of this, Powergrid plans to spend Rs.20000cr every year over the next four years to meet its target. Around Rs.110000cr is planned to be spent by the STUs.

India currently has high-capacity transmission systems with 765kV and 400kV AC technology and HVDC systems that deploy up to +/- 800kV technology. The government has initiated an effort to move towards higher voltages and new technologies. Higher voltages lead to more efficient transfer of power while using lesser space. New technologies that are being adopted to make the grid more reliable and efficient include HVDC, dynamic reactive compensation, PMU / PDC-based synchro-phasor technology / wide-area monitoring system (WAMS), phase shifting transformers and series reactors, and 1200 kV UHVAC.



In the eleventh five year Plan Period (2007-12), India added power generation capacity at a CAGR of 8.7% compared to only 5.4% CAGR in transmission line reflecting the unevenness in the capacity addition. Acknowledging the disproportion, higher capacity addition has been proposed for the transmission sector in the twelfth five year plan (2012-17) to match with



higher generation capacity. Setting up infrastructure for transmission of electricity from renewable sources to the National Grid also has been addressed by dedicated fund allocation towards it.

Under-investments in power transmission vis-à-vis generation finally catching up

- Dedicated schemes of Rs.1.09 lakh cr for 24x7 power in rural and urban areas
- An unprecedented Rs.1lacr allocated by the central government for the national transmission grid
- In each Transmission Line project (excluding substations), portion of towers is about 40%. Conductors and Insulators are about 40% and EPC is about 20%
- The government's increasing focus on transmission reflected in the total line capacity addition from 257481ckm in the 11th Plan to 339158ckm upto Feb 2016 in the 12th Plan
- PGCIL estimates transmission line capacity creation of a significant 119000-126000ckm in the 12th Plan

Power For All – Initiative by the GOI

In view of the growing need of the Indian economy, the NDA Government has embarked upon a massive programme to provide 24×7 power across the country by 2019. This means connecting to the grid 125000 of the six lakh villages in the country. The Power Ministry has already signed a memorandum of understanding with various State Governments under its 'Power for all' initiative that aims to cover the entire country.

The Government is also implementing an ambitious Rs.43033cr plan to supply separate electricity through separate feeders for agricultural and rural domestic consumption to ensure round-the-clock power rural households.

Rs.32612cr **Integrated Power Development Scheme** has been launched for strengthening sub-transmission and distribution systems. The Union Cabinet has recently approved **Ujjwal Discom Assurance Yojna or UDAY** to ease the financial crunch faced by power distribution companies. The scheme was launched to tackle debt of Rs.4.3 lakh crore on discoms utilities besides measures to cut power thefts and align consumer tariff with cost of generating electricity.

The NDA government has initiated **National Smart Grid Mission** to make the Indian Power infrastructure cost effective, responsive and reliable. Smart grids use sensors, meters, digital controls and analytic tools to automate, monitor and control the two-way flow of energy across operations—from power plant to plug.



This is a very ambitious programme and the 100 smart cities to be set up will also have smart grids resulting in sizeable savings in power. To achieve the goal of uninterrupted power supply to consumers, the Ministry has taken several steps in coordination with State Governments. The measures are as under:

- Capacity addition of 118537MW (including 88537MW conventional and 30000MW renewable) during the 12th Plan, i.e. by 2016-17.
- Construction of 110000ckm transmission lines and setting up of 289250MVA transformation capacity during the 12th Plan, i.e. by 2016-17.
- Preparation of State special Action Plans for providing 24X7 Power For All (PFA) in partnership with the States.
- Strengthening of sub-transmission and distribution networks and segregation of agricultural feeders to give adequate and reliable supply and reduce line losses through new schemes of **Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)** and **Integrated Power Development Scheme (IPDS)**.

Transmission Lines-(All figures in ckm)

At the end of	6th plan	7th plan	8th plan	9th plan	10th plan	11th plan	During 12th Plan Upto 1-2-16	Capacity as on 1-2-16	Expected 12th Plan Addition	% Achieved
220 kV										
Central	1641	4560	6564	8687	9444	10140	805	10945		
State	44364	55071	73036	88306	105185	125010	19286	144296		
JV/Private	0	0	0	0	0	830	68	898		
Total	46005	59631	79600	96993	114629	135980	20159	156139	35000	57.60
400 kV										
Central	1831	13068	23001	29345	48708	71023	16662	87685		
State	4198	6756	13141	20033	24730	30191	14238	44429		
JV/Private	0	0	0	0	2284	5605	8289	13894		
Total	6029	19824	36142	49378	75722	106819	39189	146008	38000	103.13
+500 kV HVDC										
Central	0	0	1634	3234	4368	5948	3506	9454		
State	0	0	0	1504	1504	1504	0	1504		
JV/Private	0	0	0	0	0	1980	0	1980		
Total	0	0	1634	4738	5872	9432	3506	12938	10340	33.91
765 kV										
Central	0	0	0	751	1775	4839	15123	19962		
State	0	0	0	409	409	411	429	840		
JV/Private	0	0	0	0	0	0	3271	3271		
Total	0	0	0	1160	2184	5250	18823	24073	27000	69.71
Grand Total	52034	79455	117376	152269	198407	257481	81677	339158	110340	74.02



India: Exponential power transmission sector opportunities

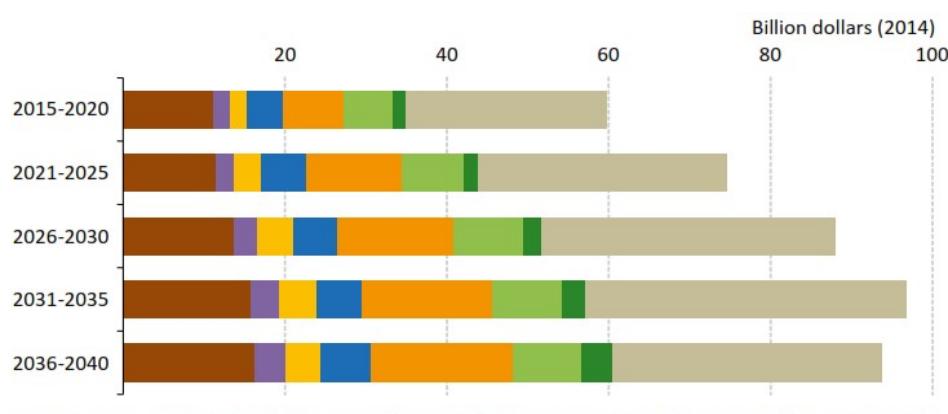
The government is looking at an investment of around \$50bn (around Rs 3.3 lakh crore) in the transmission sector in the next five years. A key piece of that upgrade would permanently address the crippling aggregate technical and commercial losses (AT&C) that total 25-27% annually.

In the next six months at least 12-16 billion dollars worth of transmission lines are expected to be bid out. While Power Grid Corp. of India is undertaking a sustained heavy capital-expenditure program that is running at US\$4-5bn annually to cover grid-transmission line and substation expansions and upgrades while expanding inter-regional capacity. The Indian grid has an installed generation capacity of 260GW. By 2022, that figure will approach 500GW, requiring an investment of more than US\$20bn by Power Grid Corp. The Power Ministry is looking for global political and financial support for this program.

Establishment of dedicated green energy transmission corridors to cater to the massive renewable power generation target of 175000 MW by 2022. Growing interest in tariff-based competitive bidding (TBCB) by several private sector giants such as Sterlite, Essel and Adani. Growing inclination by the SAARC to develop robust transmission grid connections for ease of power trade between the nations. Sizeable products currently under bidding are:

- Rs.10000cr transmission investments in India's northeast under the NERPSIP programme
- 25000cr 800 KV HVDC Raigarh Pugalur Transmission project
- 40000cr Plus Green Corridor Projects (Lines being built in Western region catering to Renewable power sources)

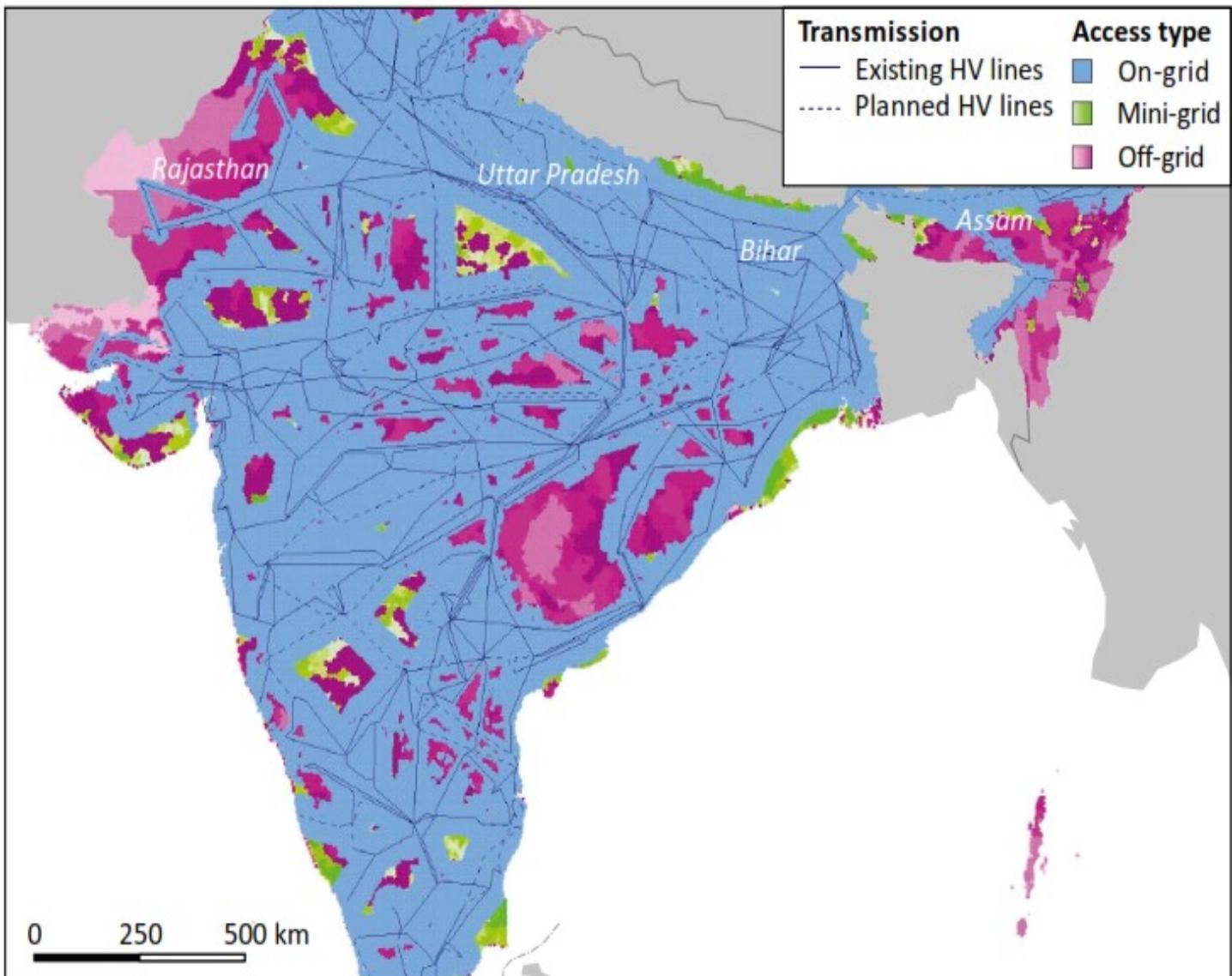
Average annual investment in the power sector in India in the New Policies Scenario



Source: IndiaEnergyOutlook WEO2015



Optimal split by grid type to achieve universal access in selected regions in the Indian Vision
Case by 2025



This map is without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Note: The analysis incorporated the planned expansion of the main transmission lines. The density of the colour is linked to population density: the darker the colour, the higher the population density. The regions selected are those with the highest deficit in terms of population without access.

Source: IndiaEnergyOutlook WEO2015

The investment associated with this drive for universal access is around \$60 billion in total. Three-quarters of this sum goes to new mini- and off-grid power generation capacity, followed by investments in on-grid capacity and extension of transmission and distribution lines.



Investments by Powergrid

Powergrid as on February 2016, owns & operates around 128201ckm of Extra High Voltage (EHV) transmission lines spread over the length and breadth of the country and 206 EHV AC & HVDC Sub-stations with transformation capacity of more than 249579 MVA. Its vast transmission network wheels about 46% of the total power generated in the country. The availability of this huge transmission network is consistently maintained over 99% through deployment of state-of-the-art operation & maintenance techniques at par with global standards.

Powergrid has planned a capital investment of more than Rs.110000 crore for development of inter-State transmission system during XII Plan. During the XII plan it has been envisaged to include about 40000ckm of transmission line and about 100000MVA of transformation capacity. Powergrid has already made a capital expenditure of Rs.65651cr in the first three years of the plan period.

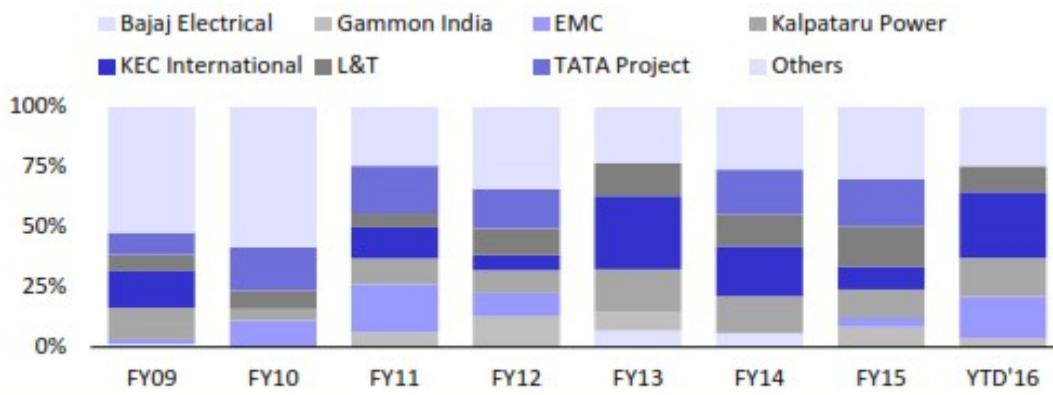
The Company has an excellent credit rating with financial institutions, thereby, is placed in a comfortable position in terms of resource mobilization. It is also playing a major role in facilitating grid interconnection of renewable generation across the country through implementation of portion of ISTS part of Green Energy Corridors.

Spending on transmission in the 10-12th Plan period

INR b	10th plan(FY03-07)			11th plan(FY08-12)			12th plan(FY13-17e)		
	Total	PGCIL	Share	Total	PGCIL	Share	Total	PGCIL	Share
Inter State	200	190	95%	550	553	98%	1,200	1,000	83%
Intra State	255			562		0%	550	100	18%
Total (Transmission)	455	190	42%	1,112	553	50%	1,750	1,100	63%

Source: www.planningcommission.gov.in/ / Wallfort Research

PowerGrid – Transmission lines market share – Major Players

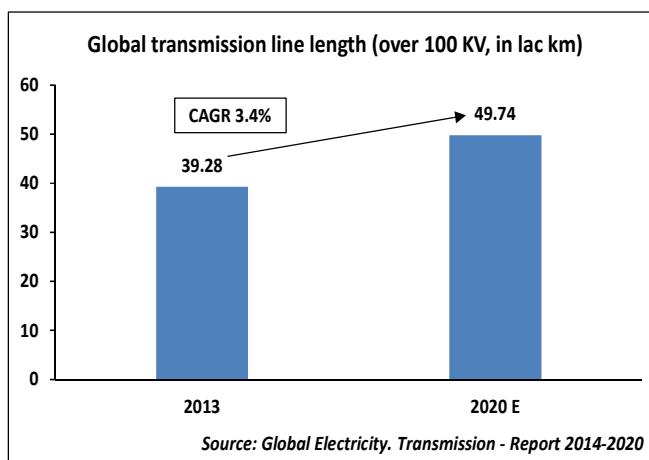


Source: Company/ Wallfort Research



Global T&D scenario

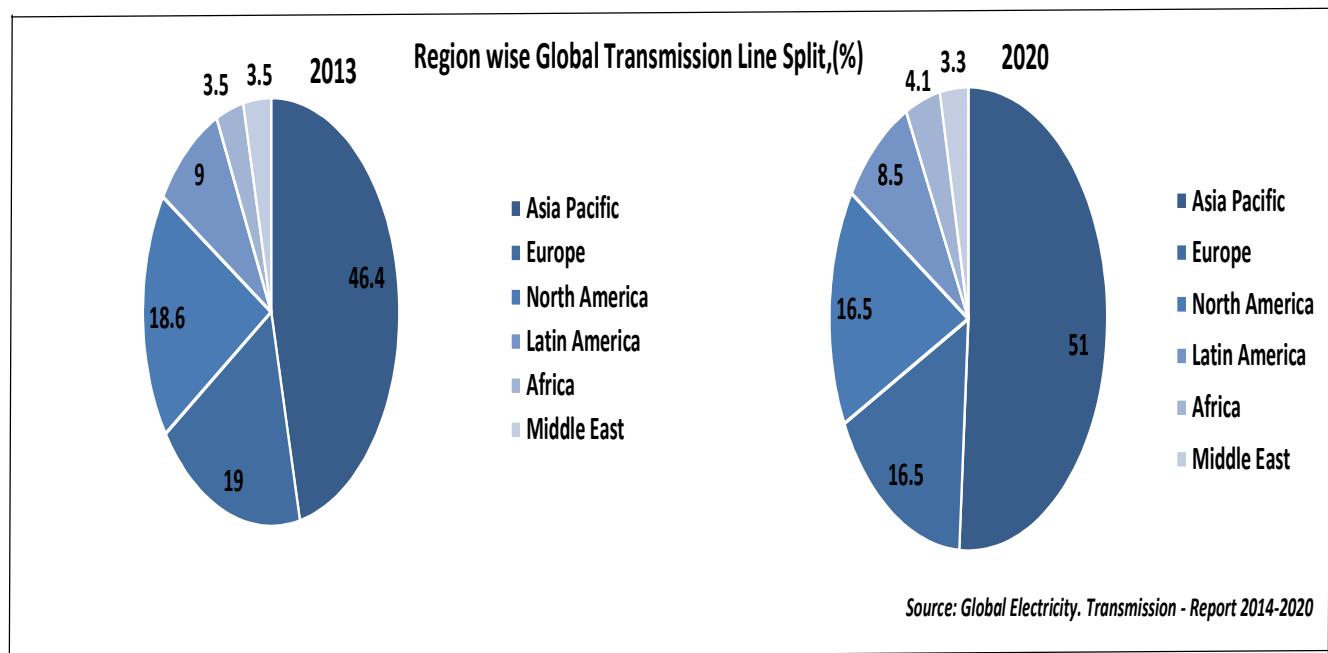
Cross border electricity interconnection in Europe and Africa and the need to provide the growing population with access of electricity in developed economies will also contribute to the growth in transmission sector. Despite low growth in electricity demand and sluggish economic forecasts in many developed economies, the global power sector will scale up significantly with 1,658 GW planned or expected generation capacity to be added and 10,45,578 km of transmission lines expected to be built up by 2020.

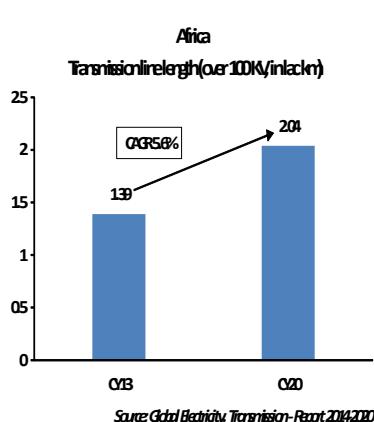


T&D Capex need - FY2014-35 (\$Bn)

Region	Transmission	Distribution
India	119	551
Middle East	60	165
Africa	135	286
United States	254	564
Americas	324	696
Brazil	90	186
Asia	793	2335

Source: IEA's World Energy Outlook 2014, World Bank





Africa

The installed capacity in the African region is expected to increase at a CAGR of 10.1% with plans to add over 117.5 GW between 2014 and 2020. The installed capacity is expected to be 240.6 GW by the end of 2020. Various steps taken in the recent times such as Power sector reform and restructuring program by Ethiopia and Nigeria governments, announcement of large scale aid to sub-Saharan African nations by the US President to develop energy infrastructure are expected to be beneficial for the transmission sector. During 2014-20 the region is expected to build around 65000km transmission lines growing at a CAGR of 5.7%. This will involve an Investment close to \$37.5 billion of which about two-thirds is estimated to be made in four countries—South Africa, Egypt, Nigeria and Algeria.

Middle East

Middle East region is expanding its generation capacity to meet with the growing electricity demand in the region. It is expected that almost 82.7 GW of new generation capacity will be added in the region between 2014 and 2020. Transmission sector will grow due to rising energy demand and modernization of existing infrastructure by setting up smart grid. It is estimated that 25,149 km of transmission lines will be added between 2014 and 2020. This represents a moderate growth rate of 2.4% during the period. Iran, Saudi Arabia, Israel will be the top nations among others in increasing transmission capacity. The total investment in the transmission segment is expected to be over \$ 38.7 billion during 2014–20.

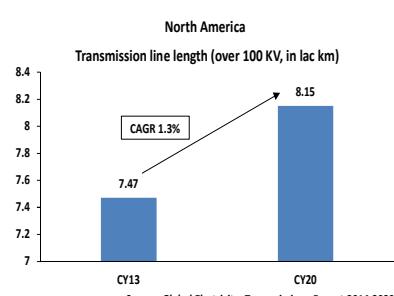
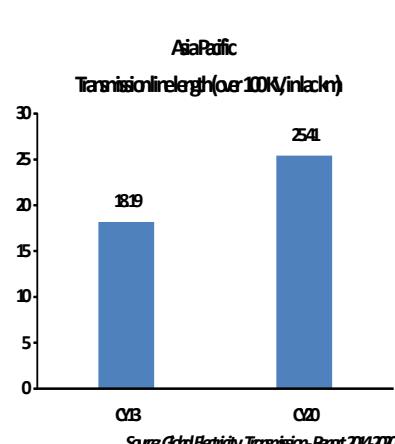
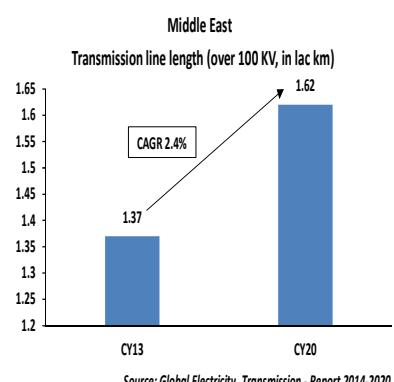
Asia Pacific

The electricity generation capacity in the Asia Pacific region was estimated at 2,152 GW at the end of 2013 growing at a CAGR of 7.1% since 2005. Generation capacity in the region is expected to touch 3,216 GW by 2020, increasing at a CAGR of 5.9% from 2,152 GW in 2013. Rising energy demand and need to make energy accessible to all will be the growth drivers for energy sector in Asia Pacific region. Expansion and strengthening of high voltage grids will provide the impetus to the transmission sector.

During 2014–20, the region is expected to add a total of 722000km to its transmission network which is likely to require an investment of \$566.6 billion. China will be the top spender by investing 76.2% of the planned investment during this period. The country alone is expected to spend \$432 billion on the expansion of its transmission grid during 2014–20.

North America

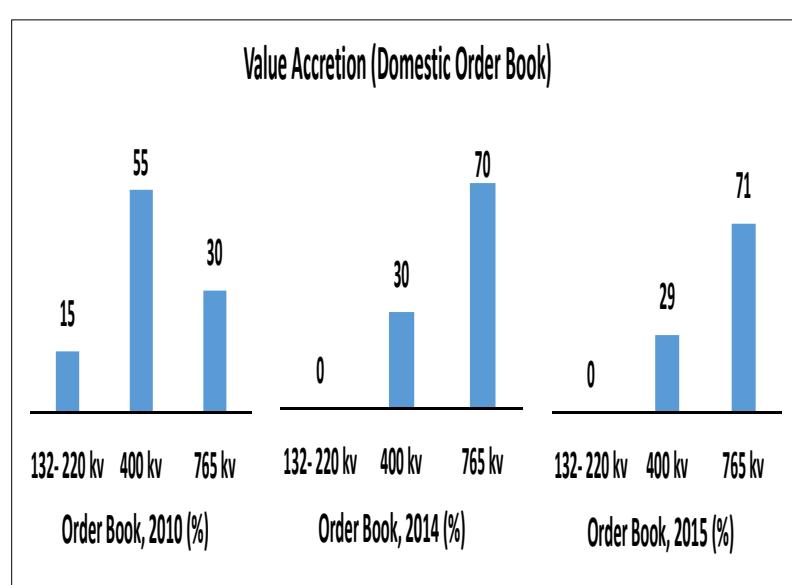
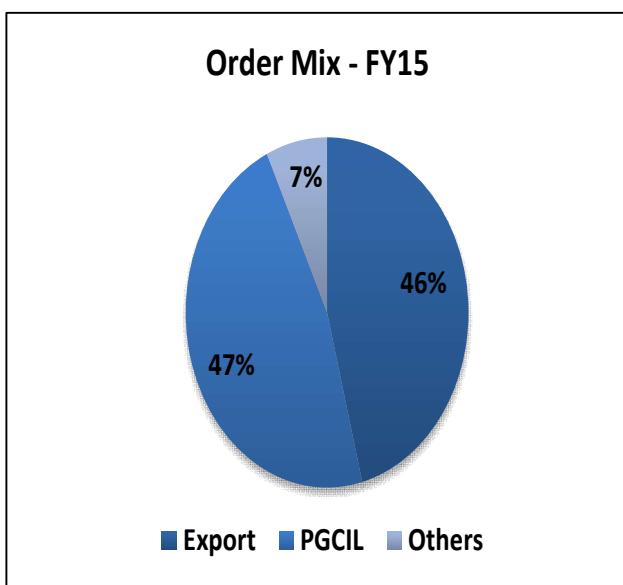
During 2014–20, about 403809 MW of new capacity is expected to be installed in North America. Most of the capacity addition in this region will be renewable-based (42%) and gas-based (27%). Growth in transmission sector will come from replacing outdated transmission infrastructure with modern one. During 2014–20 about 69268 km of lines will be added in North America entailing an investment of about \$134 billion. The US will account for about 72% of these investments and the balance will be made in Canada.





T&D segment - Order Book details

Its current order book stands at Rs.24485mn as on 31st March, 2015, giving it a revenue visibility for the next two years. The order book is well diversified between domestic as well as international orders. Power Grid Corporation of India Limited (PGCIL) is its largest customer with over 50% of total order book & 90% of its domestic order book. It has over Rs.11500mn worth of export orders and is looking forward to tap into emerging opportunities in Africa and Latin America.



Source: Company / Walfort Research

Skipper is changing its order book towards higher voltage & focusing mainly on 400kv lines and higher as well as for the international orders. 765kv forms 60% of its revenue & 400kv forms 40% of its revenue. Top 3 players command a combined share of ~50% of the transmission tower business. Other players in the market either have financial constraint or do not have appropriate capacities; hence Skipper gets a good slice of tenders individually or in tie-ups.

Bid process for transmission project tenders by Skipper

Skipper bids for transmission projects via the following 3 routes:

- **JV (Joint Venture)** – pre-alliance with other suppliers, a joint tender is filed for EPC contract
- **JDU (Joint Deed of Undertaking)** – the supplier only fills the tender & a confirmation is given from Skipper
- **Direct route** – Skipper supplies the material required directly



Order Prospects

Domestic

Skipper has bid for more than Rs.3000crs worth of tenders and a large number of those are expected to be finalized in Q4FY16. It is already L1 in a fair amount of tenders. Considering its previous strike rates, it is confident of getting substantial portion of the tenders it has bid for. It is confident of ending the fiscal with a higher order book as compared to last year.

Exports

On the international front as well, the company has already secured large contracts in the geographies of Latin America, Europe, Africa and Middle East. The order book of the company increased from approximately 12000mn in March 2014 to over 24500mn in March 2015 with almost a 50% share from International business.

In FY14 and FY15 it has received orders of over \$150 million from the Latin American market itself apart from some orders from the European and African regions. The execution in the LATAM market has helped them make inroads for future prospects. Going forward it is expecting to secure good orders in the international space not just from LATAM but from Europe and Africa also. Focus has been higher off late on the exports front as export margins are better than the domestic market.

Exports competitive by 10% - Raw material Advantage

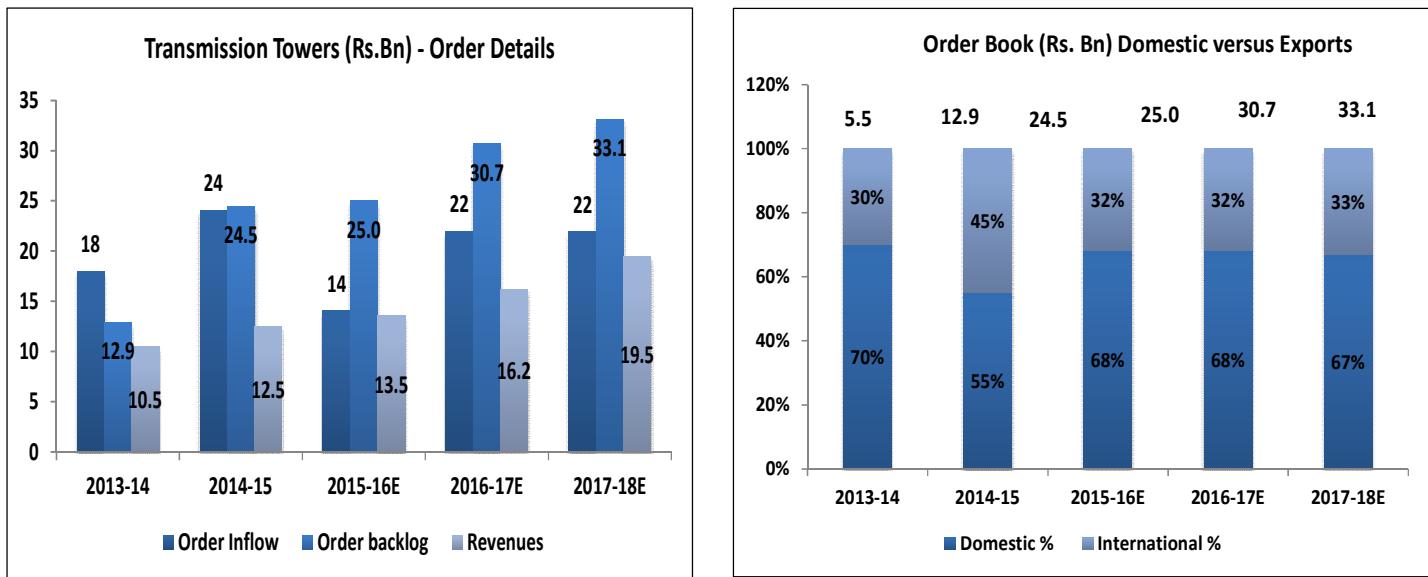
Production of transmission towers requires the sourcing of the cheapest raw material as far as possible. Location in Eastern India gives it a biggest advantage on that front. Secondly galvanizing is relatively cheaper in India as compared to most Western countries because it is a red category product or a red category process so it is cheaper to galvanize in India and China as compared to Europe or Latin America. And thirdly its labour cost. Production from India is much cheaper as compared to a Latin American producer or a European producer. This makes India competitive against its foreign counterparts by somewhere around 10%.

Agreement with TSOs

Skipper has signed long-term supply agreements with Latin American countries worth Rs.7500Mn. The Latin America transmission service agreement is expected to end by FY17. Skipper expects the alliance agreement getting extended at the end of the three-year tenure which ends in the latter part of FY17 as the customers they are working with are extremely strong and happy working with them.



Order Book details

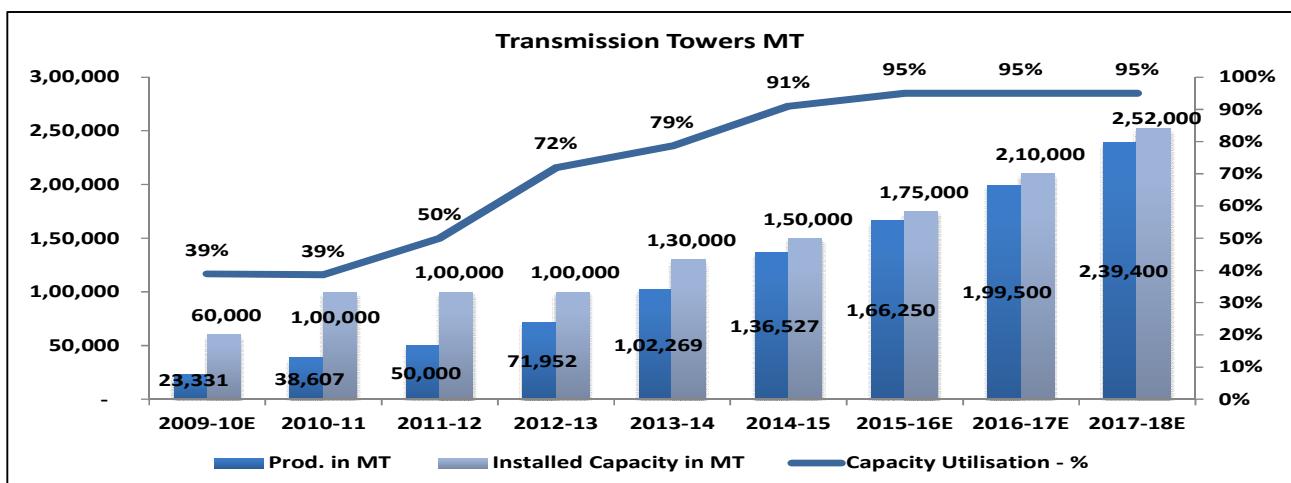


Source: Company/ Wallfort Research

Strong T&D spend by GOI as well as from Powergrid & from the international markets the management expects its order book to be higher than its last fiscal ~Rs.25bn showing a revenue visibility of ~2yrs. International markets will comprise ~30-33% of its order book going ahead.

Volumes growth

Skipper has a production capacity of ~175000mt for its transmission towers in FY16 & its capacity is expected to increase by 20-25% yearly. Volumes growth is expected to be in the range of 20-25% but because of the lower commodity prices and the de-escalation clause that comes with it, realisations will be in the range of Rs.69000-70000 per MT.



Source: Company/ Wallfort Research



Backward Integration - Facility highlights at Skipper

- 3 Powergrid approved Transmission tower & poles manufacturing plants with a combined Capacity of 175,000 MTPA. In-House Designing and Pre-engineering Dept.
- MS & HT angle rolling (upto 200x200x25) ensuring all time availability of raw materials
- More than 40 CNC operated production lines imported from Germany, Italy & China
- 7 in-house Galvanizing Plants with plant size upto 14mtr and an annual Galvanizing capacity of handling over 2 Lakh MT
- Plans of setting up Satellite Manufacturing hubs for Plastic Pipes to have a pan-India presence within 3 years

Additional savings of ~3-4%

Skipper engages in the vertical and horizontal integration of almost all its major products such as Power Transmission Towers, Tubes, Swaged Poles, Monopoles, High Mast Poles, etc. It is among the few in the industry to have invested in backward integration through Rolling Mills, which gives it control over its raw material availability and quality as well as horizontal integration by way of introducing fasteners and accessories for towers. Its plant locations in Eastern India gives it a strategic advantage of the lowest cost availability of its core raw material - Steel which is purchased from Sail's Durgapur steel plant located 150km away from Skipper's plant. It also has an easy access to ports for its exports. The logistics cost works out to Rs.500/ton for Skipper as compared to Rs.2500/ton for other players.

Skipper T&D margins better than its peers

- Scale & Size**
- Huge scale helps in high negotiation power on raw material sourcing, resulting into low manufacturing cost.

- Integrated Operations**
- Helps to keep the profit on rolling mill operation, which others have to pay to rolling vendor.

- Logistic Advantage**
- Logistic cost on raw material is very low since all the primary steel plants are located near to the factory.

- Focused Manufacturer**
- Focused tower manufacturer rather than EPC player

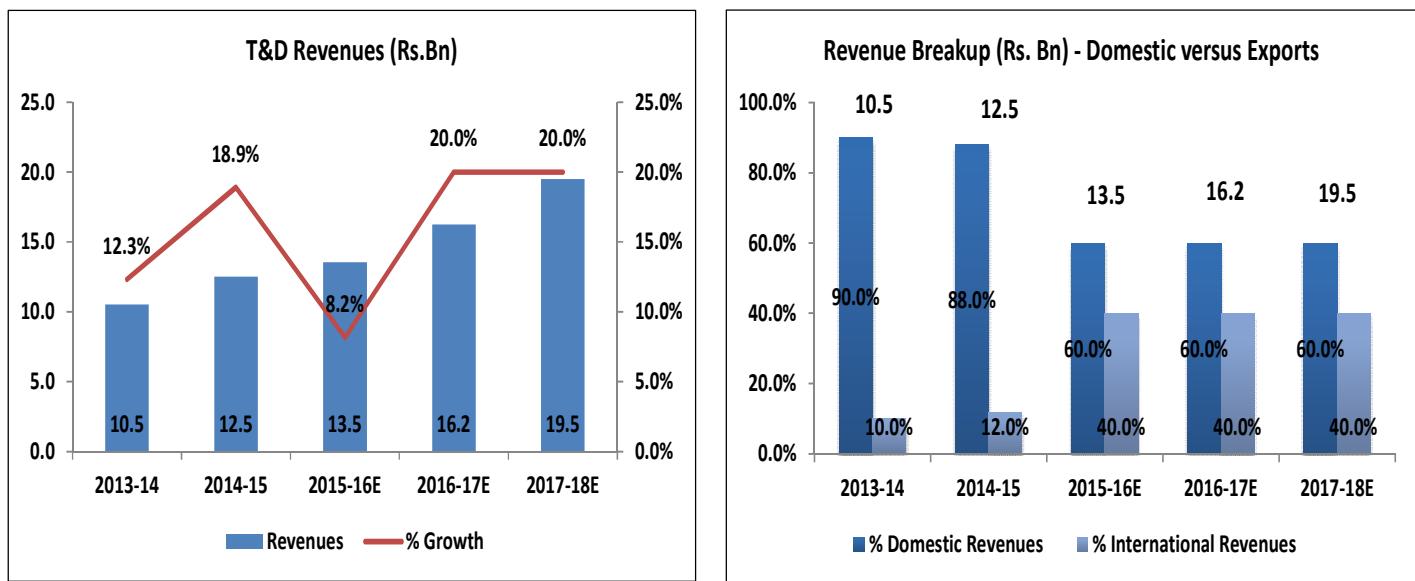
Effect: The combined effect of all four advantages results into 3-4% additional profit as compared to others

Source: Company/ Wallfort Research



Revenues

Keeping in view with a volumes growth of 20-25%YoY, we are expecting a revenue growth of 20% with an order book of Rs.25bn. This gives it a revenue visibility of ~2yrs. With its focus of becoming a global player in its Power T&D business it has secured multiple contracts in various geographies, and management has guided for ~40% of its revenue in the coming year will be from international business alone. 60% of its revenues will be from the domestic segment.



Source: Company/Wallfort Research

EPC segment – Infrastructure projects

First EPC project – 400kv Multicircuit portion of Punchkula Patiala project is on its way to get commissioned. The infrastructure segment has witnessed a reduction in topline, which is due to the company being extremely selective about the EPC project that it undertakes. The orders already available with the company are being executed and new tenders in a selective way are being participated in. EPC segment forms a minimal part of its overall revenues.



PVC segment

Despite being a relatively new entrant, Skipper has garnered ~10% market share of the PVC products business in eastern India. Its product portfolio of pipes, including CPVC pipes and SWR pipes makes it a major player across rural agricultural and urban plumbing segments.

Industries Served

- Plumbing
- Sewage
- Borewell
- Agriculture

It enjoys market leadership in West Bengal and Bihar, with growing prominence in Jharkhand, Orissa and all seven North-eastern states. Looking at the success in eastern India and huge opportunity in the PVC pipes segment, it has firmed up plans to be a pan-India player. It has commissioned a plant in Ahmedabad in 2015 with an initial capacity of 10000 TPA being captive support unit in a group company to cater to the western states of Gujarat and Maharashtra. It has put in place strong marketing teams across Gujarat, Rajasthan, Maharashtra and Madhya Pradesh to grow its market prominence. Subsequently, it has plans to take its total capacity to 100000 TPA by FY2018. It has also launched CPVC pipes for both agricultural as well as urban plumbing segments.

Existing capacity & Expansion Plans

FY16 - Status	Existing Plant at West Bengal	Ahmedabad	Guwahati	Secunderabad	Hyderabad	Total
Date of Commissioning	Present	Present	Present	February, 16	April, 16	-
Capacity	12500 MT	10000 MT	4000 MT	6000 MT	6000 MT	41000 MT
Capacity Utilization	85%	50%	50%	40%	Yet to Start	-
Additional Capacity	2500	New Facility	New Facility	New Facility	New Facility	-
Capex to be incurred (Rs. 8000/MT)	Rs.2cr	Rs.8cr	Rs.3.2cr	Rs.4.8cr	Rs.4.8cr	Rs.22.80cr
Source: Company/ Wallfort Research						

Skipper is going for an expansion of its PVC division by setting up manufacturing facilities in northern and north eastern part of the Country. This division is expected to grow nationwide and make a valuable contribution to the growth of Company.



It is expecting an aggressive growth in value terms of over 100% in the fiscal years going ahead. The company has already commissioned 3 new plants in FY16 already namely Ahmedabad, Guwahati & the third plant in Secunderabad, which is in North India. The fourth plant in Hyderabad will be commissioned in FY17.

Capex Incurred – Asset light Model

The PVC pipe making facility in Ahmedabad, Gujarat was set up at an investment of Rs.500mn. This new plant entailed a capex of ~Rs.100mn and a total investment of approximately Rs.500mn, including working capital and marketing expenditures. It aims to achieve at least 10% market share of the Gujarat market within the next three years. Its plant in Gujarat is equipped with the latest pipe extrusion machineries with world-class infrastructure and has almost about 80% automation which is one of the highest in the industry.

It has decided to adopt the lease model to reduce capex and associated risks, while at the same time enhancing the returns on investments. It has incurred Rs.8000 per MT of capacity versus industry average of about Rs.20000 per MT through lease-out strategy of fixed infrastructure (land and sheds). Due to its asset light approach, the incremental capex will be around 40% of the total greenfield capex.

Technological Tie-Ups

The Company has entered into the technological tie ups with two foreign companies, who are pioneers in their respective field and have a global presence. The Company has become the manufacturing partner of **Sekisui**, a Japanese Company which is one of the world's leading manufacturers of CPVC compound, for manufacturing premium quality CPVC pipes. Secondly the Company has entered into tie up with **WAVIN**, a Netherland based Company, which is one of the world's most renowned plumbing technology companies, for launching in India, the most advanced plumbing systems in the world. With these initiatives, Skipper is hopeful of becoming a Pan India brand in the PVC piping space in the near future.

Strengthening its distribution network

Its distribution network comprises over 500 dealers. It is strengthening its pan-India distribution network. This ensures that its products are available at the right places at the right time. The framework of distribution is very well structured, which emphasises on turning the market from a fragmented to an organised one.



PVC products – Demand Supply

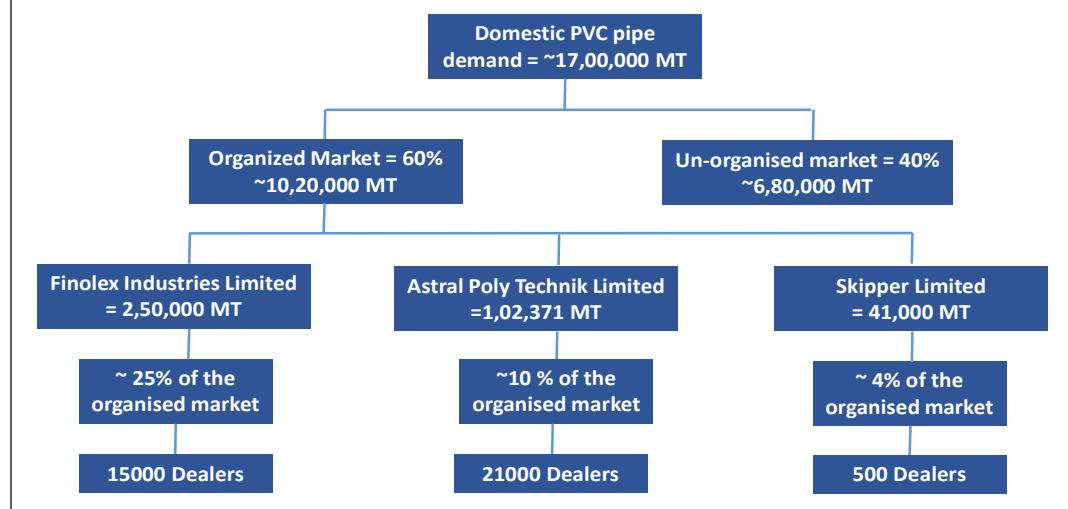
According to market estimates, total size of PVC pipes in India is about Rs.21500cr annually. In Western India, Maharashtra leads with Rs.2200cr worth PVC pipes market, while Gujarat is around Rs.1700cr. The Indian PVC pipes and fittings market is pegged to grow by 12-15% CAGR.

Scenario Of Piping Industry

Total size of Plastic Pipe Market	21,500 Cr
Total size of Metal Pipe Market	6,000 Cr.
Plastic Pipe Industry growth	12-15% CAGR
Organised/Unorganised Mix	60:40

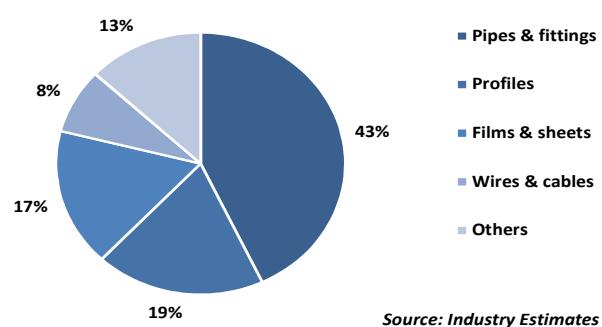
Source: Company/ Wallfort Research

PVC Pipe – Addressable Market

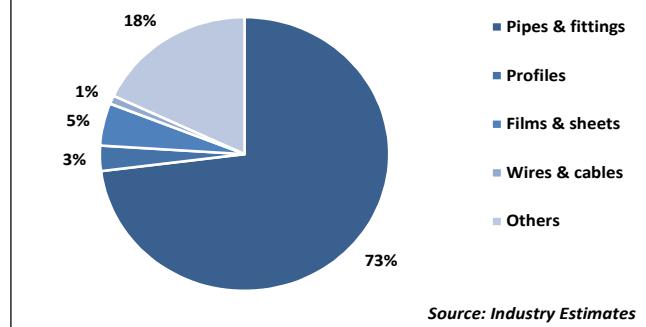


Source: Company/ Wallfort Research

Global usage of PVC



Indian usage of PVC





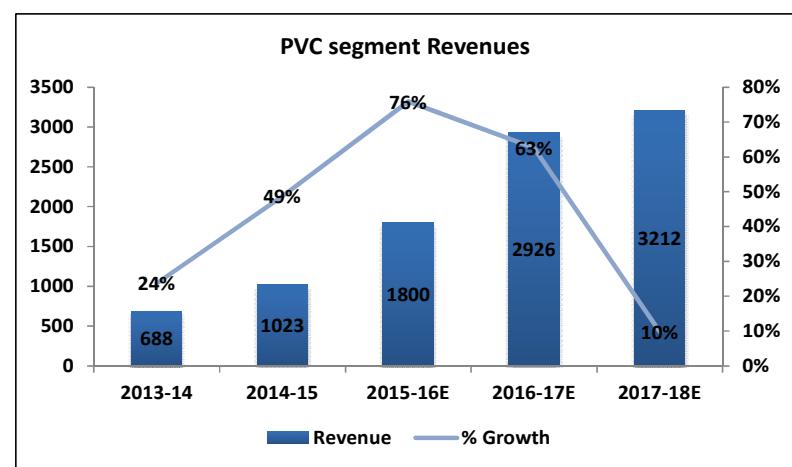
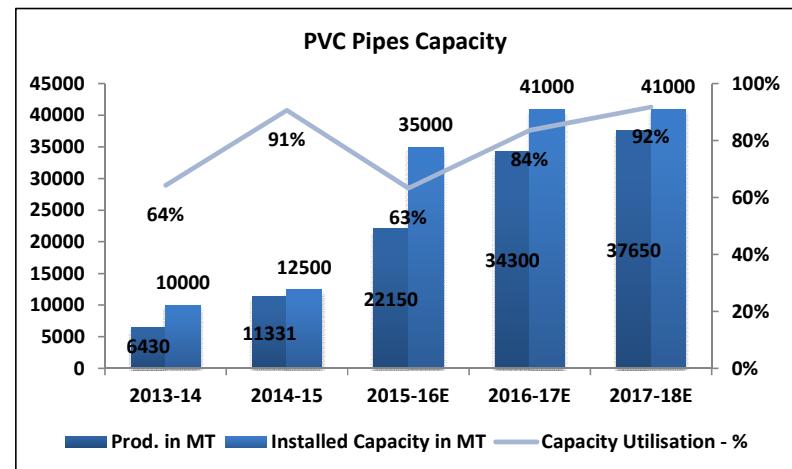
Skipper Saathi Initiatives

The company also has an initiative of excellence “Skipper Saathi” that, trains semi-skilled and unskilled plumbers. Through this initiative, the company aims to contribute to the growing requirement of trained manpower in plumbing and farming sectors. The company is also developing a centre of excellence in Gujarat that will train 10000 farmers and 2000 semi-skilled and unskilled plumbers.

The PVC segment of the Company is expected to grow at a rapid pace with the above referred tie-ups with foreign companies and the Company is hopeful of becoming a Pan India brand in the PVC piping space in the near future. The management expects a growth of 85-90% volumes wise in FY16 with realisations of ~Rs.80000-85000 per MT.

Expected Capacity Utilisation levels

Plants	2016E	2017E	2018E
West Bengal	12750	13500	14250
Capacity	15000	15000	15000
% Utilisation	85%	90%	95%
Ahmedabad	5000	8000	9000
Capacity	10000	10000	10000
% Utilisation	50%	80%	90%
Guwahati	2000	3200	3600
Capacity	4000	4000	4000
% Utilisation	50%	80%	90%
Secunderabad	2400	4800	5400
Capacity	6000	6000	6000
% Utilisation	40%	80%	90%
Hyderabad		4800	5400
Capacity		6000	6000
% Utilisation		80%	90%
Total			
Capacity	35000	41000	41000
Sales MT	22150	34300	37650
% Utilisation	63%	84%	92%



Source: Company/Wallfort Research



Agri versus Plumbing

25% of its revenue contribution comes from plumbing and about 75% coming from agri. Revenue from the plumbing is expected to go up to about 40% from next year. Ebitda margins are higher in plumbing than in agri i.e. 30% as compared to 14% in agri.

Revenues from the fittings segment

Till FY15 Skipper concentrated mostly on the agri side & the fittings contribution to the overall revenue was less than 5%. But with the introduction of CPVC fittings as well as UPVC fittings for the plumbing industry the revenue from the fittings to go up to close to about 15%.

PVC Distribution strategy

In terms of distribution of PVC pipes, it follows the same market where it is already operating in. Most of the dealers and distributors in the market are multi brand dealers and they stock three or four different brands. To increase market share it has to eat into the share of the premium pipe manufacturers.

It gives them exclusive distributorship over certain geography, which incentivises the dealer to push its brands, as they get better margins in that. They automatically generate better margins for themselves. Also as a market penetration strategy it has to incentivize its channel partners, In terms of market penetration it has to compromise on its margin numbers by a couple of percentages.

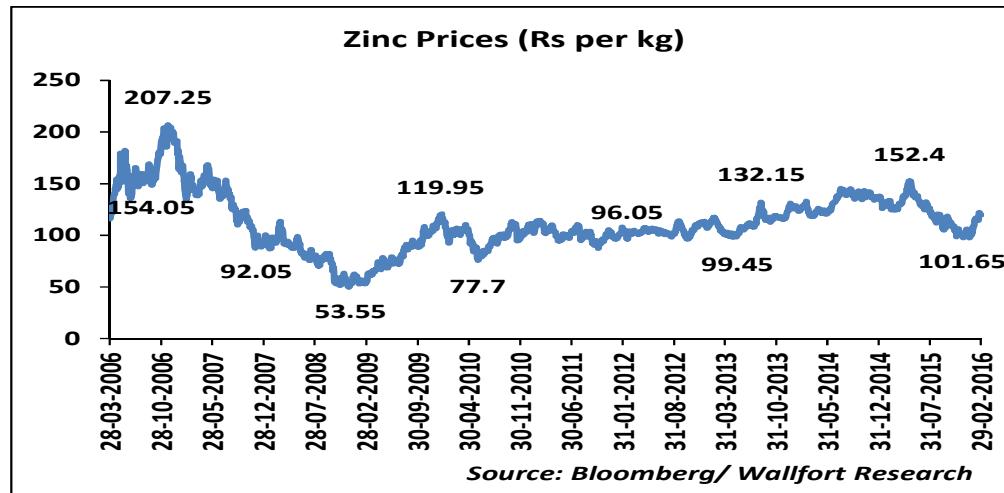
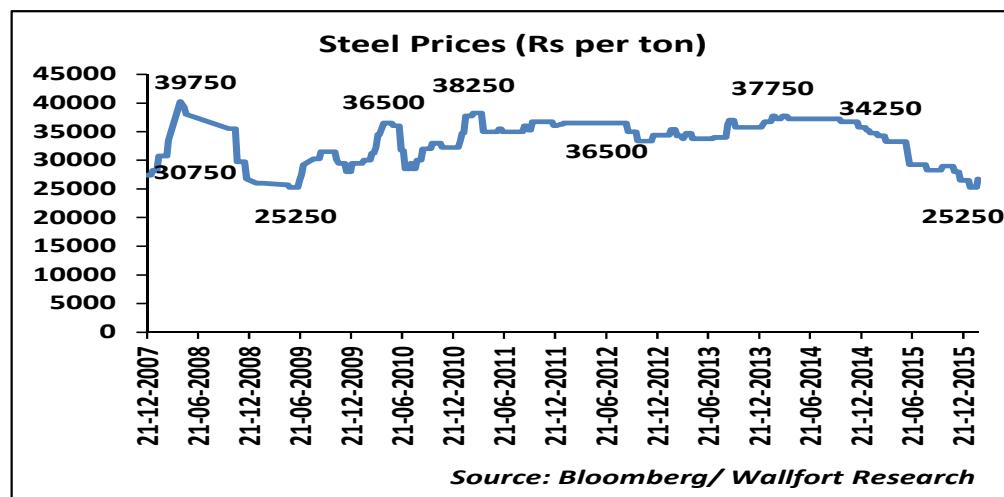
It purchases PVC resins domestically from Reliance and also imports quite a bit from companies like LG in Korea and Formosa in Taiwan. PVC resin prices are close to Rs.65000 per MT.

Concerns

- Execution delays may impact profitability
- Hedging policy risks
- Slow T&D capex will lead to lower order inflow and sales growth
- Low order inflow in exports may affect sales growth



Raw Material prices

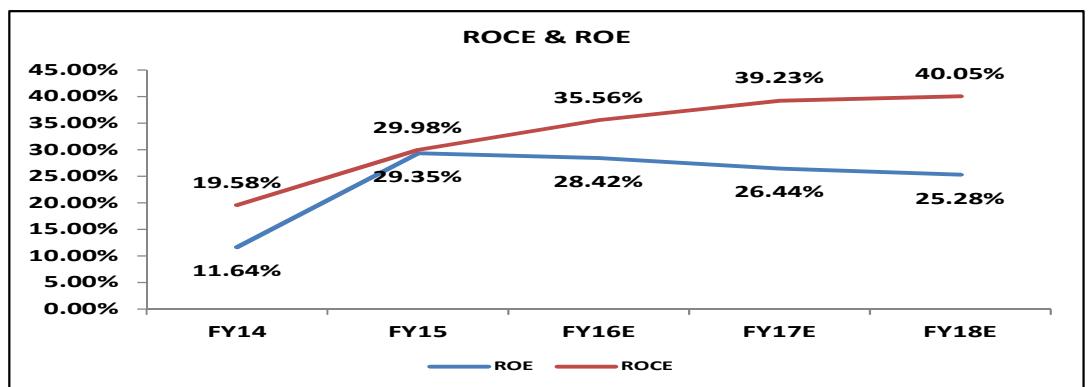
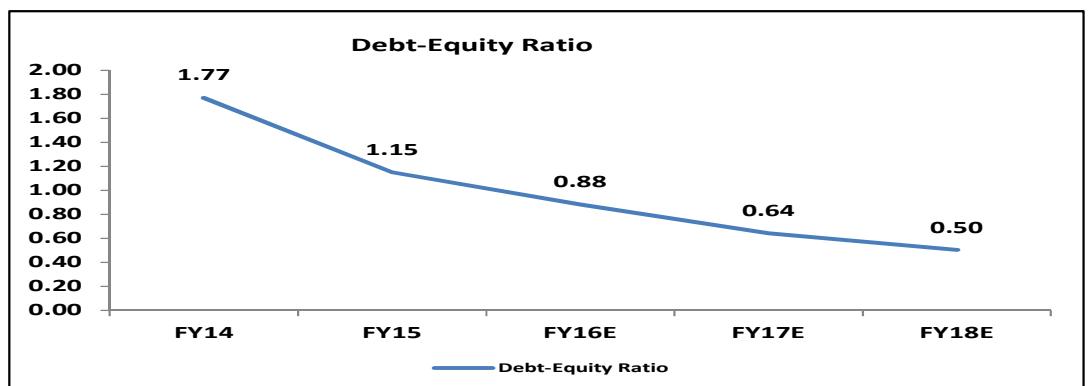
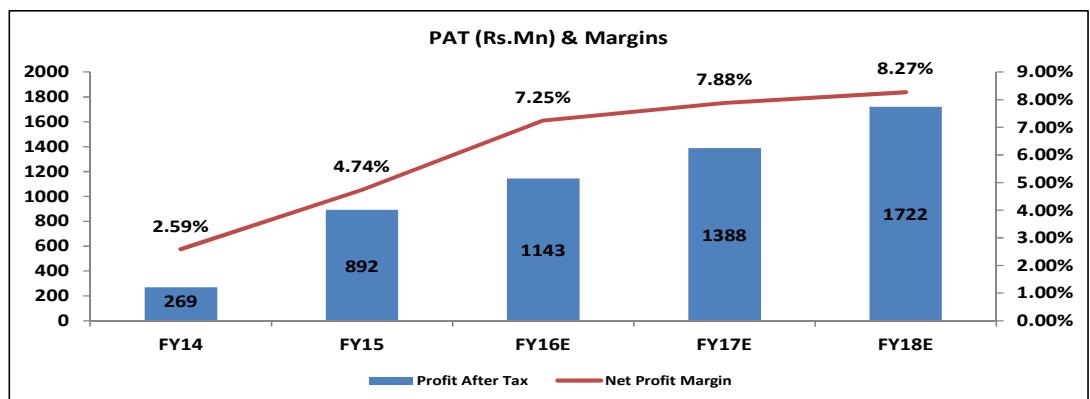
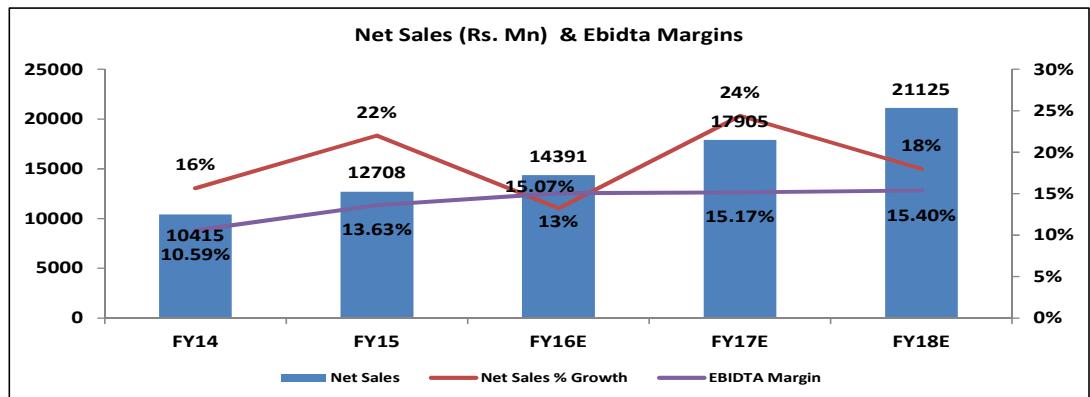


Peers

Peer Analysis	Net Sales			Op Margins			NP Margins			EPS			ROCE			ROE			PE		
	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Rs. Mns																					
Kalpataru Power Transmission Ltd	71295	72471	83828	9.9%	11.0%	11.2%	1.7%	2.0%	2.5%	7.84	9.28	13.70	5.2%	10.8%	11.0%	5.6%	6.4%	8.7%	29.26	20.37	13.80
KEC International Ltd	83463	86610	94899	6.9%	7.7%	8.2%	1.9%	2.1%	2.6%	6.26	7.17	9.58	10.0%	14.6%	15.2%	12.8%	13.1%	15.6%	13.09	17.00	12.72
Astral Poly Technik Ltd	14294	17772	21378	11.8%	12.6%	13.7%	5.3%	6.6%	8.0%	6.64	9.36	13.86	13.5%	20.8%	27.9%	16.3%	15.8%	20.0%	69.89	43.15	29.13
Finolex Industries Ltd	24517	23877	25935	8.9%	15.7%	16.9%	1.9%	8.3%	9.5%	3.85	15.82	19.93	4.8%	23.5%	25.0%	6.1%	23.9%	25.7%	82.22	22.25	17.66
Skipper Ltd	12708	14391	17905	13.63%	15.07%	15.17%	4.74%	7.25%	7.88%	8.71	11.17	13.56	29.98%	35.56%	39.23%	29.35%	28.42%	26.44%	17.56	13.43	11.28



Financial Charts





Peer Capacities Analysis

Peer Analysis	Order Book - Rs.bn	MT Capacities
	31-Dec-15	FY2016
Kalpataru Power Transmission Ltd	132.00	180000
KEC International Ltd	93.7	311200
Astral Poly Technik Ltd	-	102371
Finolex Industries Ltd	-	250000
Skipper Ltd	25	41000

Valuation

Massive investment plan of Rs.1lac cr in the T&D sector through DDUGJY scheme & IPDS scheme, green energy corridor investments of Rs.38000cr & additional rollout Rs.1 lac cr bids of transmission projects are the key triggers for the T&D segment. Its PVC segment revenues are expected to double with capacity expansion & CAGR market industry growth of 12-15% going ahead. We Initiate Coverage with a BUY rating, with a price target of Rs.204 based on its average PE of 12x FY18E EPS of Rs.17 per share with an upside of 57%.

Valuation	
EPS FY18E	17
Target PE multiple	12
Target Price (Rs)	204
Current Stock Price (Rs.)	130
Upside/(Downside)	57%



Income Statement (Consolidated) Rs. Mn					Ratio Analysis						
Date End	FY14	FY15	FY16E	FY17E	FY18E	Category	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	10415	12708	14391	17905	21125	Margin Ratio					
Net Sales % Growth	16%	22%	13%	24%	18%		EBIDTA Margin	10.59%	13.63%	15.07%	15.17%
Expenditure	9313	10976	12260	15233	17920	Net Profit Margin	2.59%	4.74%	7.25%	7.88%	8.27%
EBIDTA	1102	1732	2131	2672	3205	Profitability Ratios					
Depreciation & amortisation	151	220	192	209	227		ROCE	19.58%	29.98%	35.56%	39.23%
EBIT	951	1512	1939	2463	2978	ROE	11.64%	29.35%	28.42%	26.44%	25.28%
Other Income	21	437	235	64	67	DuPont Analysis					
Interest	605	583	425	404	412		PAT / PBT	0.73	0.65	0.65	0.65
PBT before Excep. Item	367	1366	1748	2122	2633	PBT / EBIT	0.39	0.90	0.90	0.86	0.88
Exceptional Items	0	0	0	0	0	EBIT / Net Sales	0.09	0.12	0.14	0.14	0.14
PBT after Excep. Item	367	1366	1748	2122	2633	Net Sales / Total Assets	1.18	1.19	1.19	1.26	1.26
Tax	98	474	605	734	911	Total Assets / Equity	3.81	3.50	2.96	2.66	2.43
Profit After Tax	269	892	1143	1388	1722	ROE	11.64%	29.35%	28.42%	26.44%	25.28%
No of Equity Shares (in mn.)	102.32	102.32	102.32	102.32	102.32	Valuation Ratios					
Adj. EPS	2.63	8.71	11.17	13.56	16.83	EV/EBIDTA	17.68	10.73	7.70	5.93	4.64
Balance Sheet					EV/ Net Sales						
as at 31st March	FY14	FY15	FY16E	FY17E	FY18E	1.87	1.46	1.16	0.90	0.71	
Share Capital	102	102	102	102	102	PE	58.18	17.56	12.08	11.28	8.02
Reserves	2209	2936	3919	5147	6709	Leverage Ratios					
Networth	2312	3039	4022	5250	6811		Debt-Equity Ratio	1.77	1.15	0.88	0.64
Long Term debt	2342	1770	1200	800	400	Turnover Ratios	2.64	2.96	2.99	3.43	3.74
Short Term debt	1755	1724	2346	2569	3036	Fixed Assts	3.61	4.78	4.63	5.00	5.34
Total Loan	4097	3495	3546	3369	3436	Working Capital	4.54	5.57	5.56	5.62	5.71
Deferred Grant	0	0	0	0	0	Inventory	1.18	1.19	1.19	1.26	1.26
Total Liab.	6409	6533	7568	8619	10247	Total Assets	Liquidity Ratios				
Gross Block	3943	4295	4730	5133	5560	Current Ratio	1.35	1.27	1.26	1.30	1.36
Depreciation	(558)	(782)	(975)	(1,184)	(1,411)	Interest Coverage	1.57	2.59	4.56	6.09	7.22
Net Block	3385	3513	3755	3949	4148	EPS	2.63	8.71	11.17	13.56	16.83
Capital work-in-progress	83	35	39	48	57	Book Value per share	22.59	29.70	39.31	51.31	66.57
Total Fixed Assets	3468	3547	3793	3997	4205	DPS	0.15	1.30	1.30	1.30	1.30
Investment	0	0	0	0	0	Cash Flow (Rs mn.)					
Inventory	2290	2282	2546	3135	3642	Year	FY14	FY15	FY16E	FY17E	FY18E
Sundry Debtors	2318	3758	4101	4931	5723	Profit before Work. Cap.	1140	2198	2131	2672	3205
Cash & Bank Bal	263	561	951	1330	2369	Change in working capital	(85)	(121)	(413)	(699)	(628)
Other Current assets	21	31	34	37	40	Less: Taxes	(48)	(338)	(605)	(734)	(911)
Loan and Advances	455	458	495	528	541	Cash flow from op.					1239
Total Current Assets	5347	7090	8127	9961	12315	1007	1738	1114	1239	1666	
Trade Payables	1563	2415	2521	3037	3519	Change in fixed assets	(321)	(310)	(439)	(413)	(435)
Other Current Liability	818	1478	1607	1848	2053	Change in investments	0	0	0	0	0
Provision	25	210	225	455	701	Other income	3	3	249	294	313
Current Liabilities & Provisions	2406	4104	4353	5340	6273	Cash flow from inv.	(319)	(307)	(190)	(119)	(122)
Net Current Assets	2941	2986	3774	4621	6042	Change in debt	(181)	(566)	51	(177)	67
Mis. expenses not written off	0	0	0	0	0	Dividend & dividend tax	(11)	(18)	(160)	(160)	(160)
Total Net Assets	6409	6533	7568	8619	10247	Interest paid	(602)	(576)	(425)	(404)	(412)
						Cash flow from fin.	(794)	(1,160)	(534)	(741)	(505)
						Change in cash & cash eq.	(106)	271	390	379	1,038
						Opening cash and cash eq.	366	299	561	951	1330
						Cl. cash and cash eq.	261	570	951	1330	2369



Company Background



Source: Company/ Walfort Research



Products in the transmission and distribution segment:

Products	Description	Application	Clients
Transmission Towers 	Wide range of products from 66KV to 1200KV Towers, (Single Circuit, Double Circuit, Multi-Circuit Towers suitable for Twin, Quad and Hex Conductor configurations) are available.	Power Transmission, Telecom Industry and Custom-built Towers	Power Grid Corporation Ranjit Singh & Co. Ramboll Towers India.
Poles			
High Mast Pole 	High Mast Poles are manufactured with two, three suspension system for lantern carriage using the following: i. 14 m long Bending Press with laser light for perfect bending. ii. SAW Welding Line iii. High Speed Plasma cutting machine.	Parking Yards, Railway Yards, Stations, Airports and Parks.	
Signage Mast Poles 	Signage Mast Systems are required for identification of utility premises. This can be with or without lights or retro reflective sheets. Poles are 16 m to 40 m long.	Petrol Pumps, Power Substations.	
Swaged Poles 	Poles from 5 metres to 16 metres (height). Features: Weighs 50-70% less than comparable concrete structures. Fireproof, immune to insect infestation and no pole rot. Elongation - up to 85% with no shrinkage. Free of copper wire grounding. Fully recyclable and non-toxic.	Street Lighting and Traffic Signals.	NTPC, Coal India, Reliance Industries.
Angles 	Angles are manufactured using the backward integration. This allows quality control and on demand raw material availability. Use of modern Heating and Recuperator systems ensures lesser Fuel consumption.	Power Transmission, Telecom Industry and Custom-built Towers	Power Grid Corporation Ranjit Singh & Co. Ramboll Towers India.



Products	Description	Application	Clients
Fasteners 	Mild Steel & High Tensile Fasteners are today an integral part of the Tower package. The manufacturing of bolts, nuts, washers are done within house galvanizing.	Power Transmission, Telecom Industry and Custom-built Towers	Power Grid Corporation Ranjit Singh & Co. Ramboll Towers India.
Tower Accessories 	Used for facilitating connection between the Tower and Conductors. Products include Hangers, D-Shackles, Bird Guards, Step Bolts etc.	Power Transmission, Telecom Industry and Custom-built Towers	Power Grid Corporation Ranjit Singh & Co. Ramboll Towers India.

Products in the PVC segment:

Products	Description	Application
Plumbing Water Distribution		
UPVC Flow Gold Pipes and Fittings 	Features: a. Lead free; Chemical and corrosion resistant b. Strong and resilient with high tensile strength. c. Leak proof jointing methods	a. Residential and Commercial water pipe lines from storage to outlets. b. Swimming pools c. Salt water lines d. Ash handling
CPVC Durastream Pipes and Fittings 		
	a. High mechanical strength b. Corrosion resistant c. Good insulation properties d. Resistant to fire, water and harmful chemicals	Dispensing of hot and cold water and solar heater applications
Plumbing- Drainage		
SWR Magik Flow Pipes and Fittings 	SWR stands for Soil, Water and Rain. The systems are also available as SWR Lite for lighter applications. Being highly resistant to all kinds of harmful chemicals and corrosion, the pipes offer long lasting and durable services. It is available in the market in both push as well as ring system.	High application in residential and commercial use since helps to remove waste without any blockage and damage.



Wallfort Research is also available on Bloomberg <Code WFSR>

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