

BUY



Asian Markets Securities Pvt. Ltd.

Institutional Research

CMP (Rs)	142
Target (Rs)	225

Nifty: 7,870; Sensex: 25,705

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs 2)	102.3
Market Cap (Rsbn)	14.3
52-Week High / Low	220 / 116
3-M Daily Avg. Vol.	1,51,440

Relative Performance

(%)	1m	3m	12m
SKIPPER	(8.0)	0.6	(11.7)
NIFTY	(0.5)	9.4	(4.7)
Sensex	(0.3)	(8.7)	(5.8)

Shareholding Pattern

(%)	Sep15	Dec15	Mar16
Promoter	72.4	72.4	72.4
FII	0.0	1.1	0.4
DII	0.0	0.0	2.9
Others	27.6	26.5	24.3

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Skipper Ltd

Ready to take off....

Skipper Limited (Skipper); reported 4QFY16 results with 6% yoy sales growth, despite decline in realisations. The revenue in PVC products increase by 28.6% yoy and 50.1% qoq, whereas Engineering segment revenue grew by 12.4% yoy with 15% yoy volume growth. Adjusted PAT stood at Rs 361mn up 19.4% yoy. The TLT order book stands robust at Rs24.3 bn and provides healthy visibility along with Rs12bn 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 incorporated FY16 audited numbers and maintain our FY17E and FY18E estimates with minor adjustments. We expect a 35.9% 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 (earlier Rs231), based on 15x PER of FY18E EPS.

4QFY16 reported strong results with Engineering segment EBIT margin of 13.6%: Revenue grew at 6% yoy and 42.5% qoq, despite fall in realisation owing to higher volumes. The strong export order book led to a 12.4% yoy growth in engineering segment revenue, whereas PVC segment revenue grew by 28.6% yoy on low base. Blended EBITDA margin has increased by 12bp yoy owing to lower RM costs. Engineering product segment EBIT margin improved 77bp yoy, owing to better sales mix and discontinuation of steel pipes business. Adjusted PAT came in higher at Rs 361mn registering a growth of 19.4% yoy.

Stronger order book and pipeline will lead to robust revenues during FY16-FY18: Skipper has current order book of Rs24.3 bn, amounting to a book-to-bill of 1.8x. Further Skipper has already submitted bids for projects worth Rs 12bn and expects it to open in H1FY16. We expect strong order inflow from PGCIL's north east based projects and from International region with company entering into newer geographies. We estimate the healthy order book and pipeline will enable the company to achieve 23% revenue CAGR in engineering division during FY16-18E.

PVC products on the take off mode: During the year, Skipper has already expanded the capacity to 35,000TPA from 12,500TPA. It has registered a 77% growth in sales volume to 20,107Tonne in FY16. Further new plant in Hyderabad (6000TPA) will be commencing by FY17E. We have factored in sales volume of 28,700 TPA in FY17E and 36,900 TPA in FY18E. Management guided a 70% yoy growth in PVC segment revenue in FY17E.

Positive Outlook with rich Valuations: We estimate the revenue and PAT CAGR of 23.7% and 35.9% during FY15-18E. Return ratios to improve in FY18E with ROCE at 26.5% and ROE at 29.2%. 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 12.4x FY17E and 9.4x 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	1,731	2,011	2,617	3,211
yoy (%)	29.3	57.1	16.1	30.1	22.7
Adjusted PAT	269	616	832	1,169	1,536
yoy (%)	43.8	231.4	35.1	40.4	31.5
Equity	102	102	102	102	102
EPS	2.6	6.0	8.1	11.4	15.0

Exhibit 2: Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	10.6	13.6	13.5	14.3	14.4
NPM (%)	2.6	4.8	5.6	6.4	6.9
PER (x)	53.8	16.2	15.2	12.4	9.4
P/BV (x)	6.3	4.8	3.7	3.0	2.4
EV/Sales (x)	1.8	1.4	1.3	1.0	0.9
EV/EBITDA (x)	16.9	10.3	9.3	7.3	6.0
RoACE (%)	14.5	21.7	22.6	24.2	26.1
RoANW (%)	12.3	33.3	27.5	26.8	28.2

Skipper Ltd/ 2QFY16 Result Update

Source: Company, AMSEC Research

Exhibit 3: Skipper Ltd: 4Q FY16 quarterly results

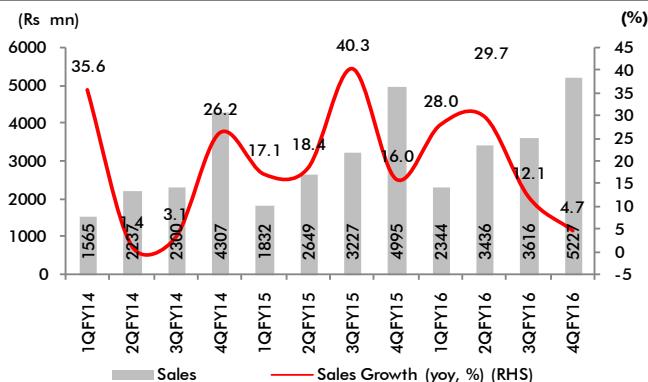
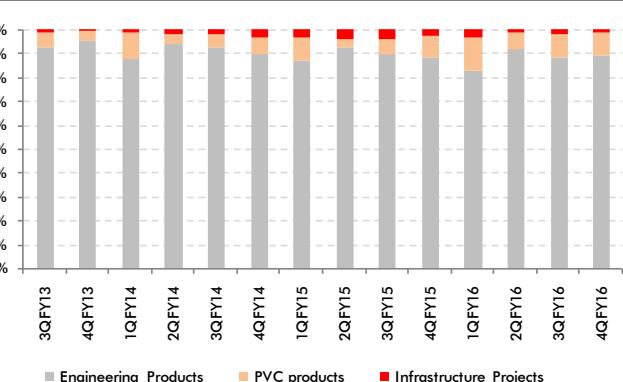
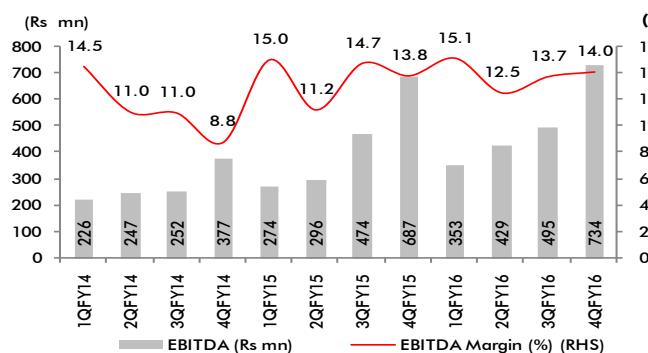
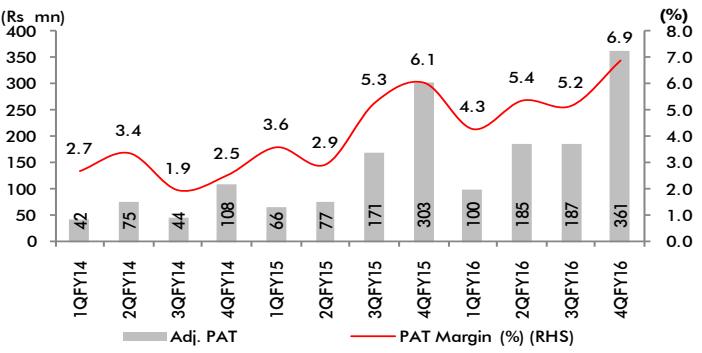
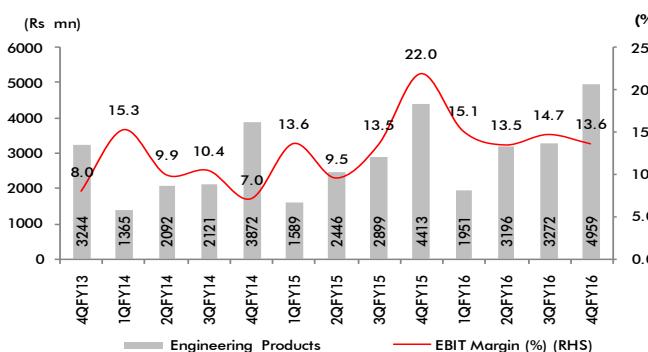
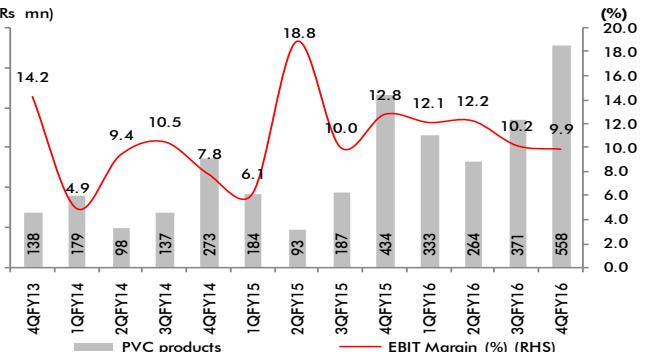
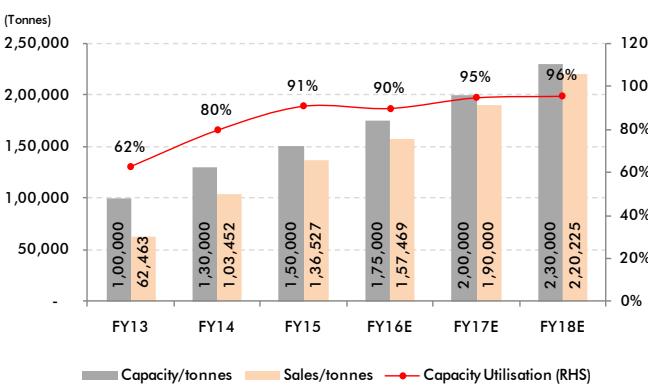
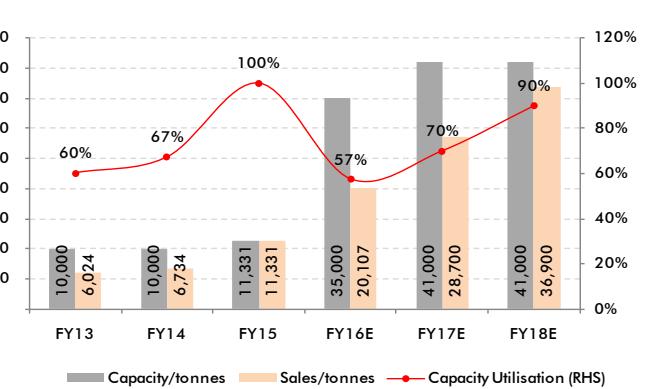
Y/E March(Rs mn)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	yoy(%)	qoq (%)	FY15	FY16	yoy (%)
Net Sales	4,995	2,344	3,436	3,616	5,227	4.7	44.6	12,702	14,624	15.1
Other Operational Income	5	22	63	102	70			5	257	
Total Sales	4,999	2,367	3,499	3,718	5,297	6.0	42.5	12,708	14,881	17.1
Stock Adjustment	1,128	(704)	(197)	28	820			246	(53)	(121.5)
Cons. of Raw Materials	2,489	2,164	2,486	2,294	2,593	4.2	13.1	8,551	9,538	11.5
Employee Cost	87	102	124	122	152	74.8	25.2	341	500	46.5
Other Expenditure	608	451	657	779	998	64.1	28.1	1,838	2,885	57.0
Total Expenditure	4,312	2,013	3,070	3,223	4,563	5.8	41.6	10,976	12,870	17.2
EBITDA	687	353	429	495	734	6.9	48.3	1,731	2,011	16.2
Add: Other Income	1	6	26	9	11	1,254.3	27.9	17	52	212.1
Interest	154	147	114	153	155	1.2	1.5	583	570	(2.2)
Depreciation	63	59	58	61	63	(0.3)	3.1	220	241	9.7
Excpt. Item	-	-	181	-	-	-	-	420	181	(56.8)
Profit Before Tax	471	153	464	289	526	11.8	82.1	1,366	1,433	4.9
Provision for Taxation	168	53	161	102	165	(1.7)	61.8	474	482	1.6
PAT	303	100	303	187	361	19.4	93.1	892	951	6.7
Adj Net Profit	303	100	185	187	361	19.4	93.1	617	831	34.6
Equity Capital (FV ₹1)	102	102	102	102	102			102	102	
Basic EPS (₹)	3.0	1.0	3.0	1.8	3.5			8.7	9.3	
Adjusted EPS (In ₹)	3.0	1.0	1.8	1.8	3.5			6.0	8.1	
EBITDA (%)	13.7	14.9	12.2	13.3	13.9	12bp	54bp	13.6	13.5	(11bp)
PAT (%)	6.1	4.2	5.2	5.0	6.8	75bp	179bp	4.9	5.6	71bp
Tax / PBT (%)	35.7	34.7	34.7	35.3	31.4			34.7	33.6	
Raw Mat. / Net Sales (%)	72.4	61.7	65.4	62.5	64.4			69.2	63.7	

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 4Q FY16 Segmental finance

Y/E March(Rs mn)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	yoy (%)	qoq (%)	FY15	FY16	yoy%
Segment Revenue										
Engineering Products	4413	1951	3196	3272	4959	12.4	51.6	11348	13079	15.3
PVC products	434	333	264	371	558	28.6	50.1	897	1525	70.0
Infrastructure Projects	152	83	39	74	81	(47.2)	9.0	462	277	(40.2)
Total Segment Revenue	4999	2367	3499	3718	5597	12.0	50.6	12708	14881	17.1
Segment Results										
Engineering Products	567	295	430	481	675	19.1	40.1	1389	1756	26.4
PVC products	55	40	32	38	55	(0.7)	45.6	103	165	60.6
Infrastructure Projects	13	19	5	14	4	(64.5)	(68.5)	110	43	(61.1)
Total	634	355	467	533	734	15.7	37.6	1602	1964	22.6
Capital Employed										
Engineering Products	6058	6600	7711	7562	6796	12.2	(10.1)	26354	28670	8.8
PVC products	459	375	503	842	1177	156.6	39.8	1351	2897	114.4
Infrastructure Projects	189	214	281	307	317	67.5	3.3	776	1119	44.2
Total Segment Cap. Emp.	6705	7189	8495	8711	8290	23.6	-4.8	28481	32685	14.8
EBIT Margin										
Engineering Products	12.8	15.1	13.5	14.7	13.6	6.0	(7.6)	12.2	13.4	119bp
PVC products	12.8	12.1	12.2	10.2	9.9	(22.8)	(3.0)	11.5	10.8	(63bp)
Infrastructure Projects	8.2	23.4	12.5	19.1	5.5	(32.8)	(71.1)	23.8	15.5	(833bp)
Total EBIT Margin	12.7	15.0	13.4	14.3	13.1	3.3	-8.6	12.6	13.2	59bp

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: Capacity & Sales volumes - PVC**

Source: AMSEC Research

Financials (Consolidated)
(Rs mn)

Profit & Loss Account					Cash Flow Statement						
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	-	6	257	-	-	Non-cash adjustments	130	203	189	286	313
Consumption of materials	7,600	8,797	9,485	12,444	15,217	Changes in working capital	(129)	186	(1,177)	(1,044)	(1,363)
Staff Expenses	274	341	500	494	627	Interest Paid	605	583	570	612	672
Other operating expenses	1,439	1,838	2,885	2,745	3,323	Tax Paid & Other Adj	(91)	(449)	(341)	(550)	(690)
Total Expenditure	9,313	10,976	12,870	15,683	19,167	Cashflow from operations	883	1,889	674	1,023	1,158
EBITDA	1,102	1,731	2,011	2,617	3,211	Capital exp. & Advances	(315)	(304)	(946)	(550)	(550)
Depreciation	151	220	241	306	333	Change in investments	-	-	-	-	-
Operating profit	951	1,512	1,770	2,311	2,879	Other investing cashflow	21	17	52	20	20
Other income	21	17	52	20	20	Cashflow from investing	(294)	(287)	(894)	(530)	(530)
EBIT	973	1,528	1,822	2,331	2,899	Issue of equity	5	(0)	-	-	-
Interest	605	583	570	612	672	Issue/repay debt	165	(566)	972	300	500
Exceptional items	-	(420)	(181)	-	-	Interest Paid	(605)	(583)	(570)	(612)	(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	-	-	-	-	-
Minority interest	-	-	-	-	-	Cashflow from financing	(454)	(1,305)	234	(551)	(471)
Reported net profit	269	892	951	1,169	1,536	Change in cash & cash eq	135	298	14	(58)	156
Adjusted net profit	269	616	832	1,169	1,536	Opening cash & cash eq	128	263	561	574	516
Share O/s mn	102	102	102	102	102	Closing cash & cash eq	263	561	574	516	672
EPS Rs (adjusted)	2.6	6.0	8.1	11.4	15.0	Free cash flow to firm	567	1,586	(272)	473	608

Balance Sheet

Particulars	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :					
Share Capital	102	102	102	102	102
Reserves	2,209	2,936	3,790	4,719	5,957
Minority Interest	-	-	-	-	-
Total Shareholders Fur	2,312	3,039	3,892	4,822	6,059
Non-Current Liabilities	2,534	1,974	2,311	2,311	2,311
Long term borrowings	2,307	1,707	1,983	1,983	1,983
Deferred tax liability	218	265	315	315	315
Other long term liabilities:	10	-	-	-	-
Long-term provisions	-	2	13	13	13
Current Liabilities	3,969	5,624	5,775	6,925	8,318
Short term borrowings	1,755	1,724	2,419	2,719	3,219
Trade payables	1,563	2,415	2,124	2,758	3,372
Other current liabilities	626	1,277	1,039	1,398	1,665
Short term provisions	25	208	193	50	61
Total Equity & Liabilitie	8,815	10,637	11,979	14,058	16,689
APPLICATION OF FUNDS :					
Non Current Assets	3,489	3,578	4,274	4,518	4,735
Gross block (Total)	3,943	4,295	5,275	5,775	6,275
Less : accumulated depre	558	782	1,023	1,330	1,662
Net block (Total)	3,385	3,513	4,252	4,446	4,613
Capital work in progress	83	35	-	50	100
Noncurrent investment	-	-	-	-	-
Long term loans and advc	-	-	-	-	-
Other non-current assets	21	31	22	22	22
Current Assets	5,326	7,059	7,705	9,541	11,954
Current investment	-	-	-	-	-
Inventories	2,290	2,282	2,500	3,259	4,108
Sundry debtors	2,318	3,758	3,724	4,863	6,254
Cash and bank	263	561	574	516	672
Short loans and advances	455	458	907	902	920
Others current assets	-	-	-	-	-
Total Assets	8,815	10,637	11,979	14,058	16,689
Net Working Capital*	3,193	3,785	4,822	6,025	7,488
Total Gross Debt*	4,395	3,829	4,800	5,100	5,600
Total Net Debt	4,132	3,268	4,226	4,584	4,928
Capital Employed*	6,924	7,132	9,007	10,237	11,974

Source: Company, AMSEC Research

Ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
PER SHARE					
EPS Rs (adjusted)	2.6	6.0	8.1	11.4	15.0
CEPS Rs	4.1	8.2	10.5	14.4	18.3
Book Value Rs	22.6	29.7	38.0	47.1	59.2
VALUATION					
EV / Net Sales	1.8	1.4	1.3	1.0	0.9
EV / EBITDA	16.9	10.3	9.3	7.3	6.0
P / E Ratio	53.8	16.2	15.2	12.4	9.4
P / BV Ratio	6.3	4.8	3.7	3.0	2.4
GROWTH YOY%					
Sales Growth	15.7	22.0	15.1	25.1	22.3
EBITDA Growth	29.3	57.1	16.1	30.1	22.7
Net Profit Growth	43.8	231.4	35.1	40.4	31.5
Gross Fixed Asset Growth	7.3	8.9	22.8	9.5	8.7
PROFITABILITY (%)					
Gross Profit/ Net sales	19.7	22.5	33.9	30.1	30.0
EBITDA / Net Sales	10.6	13.6	13.5	14.3	14.4
EBIT / Net sales	9.1	11.9	12.1	12.6	12.9
NPM / Total income	2.6	4.8	5.6	6.4	6.9
Raw Material/Net Sales	73.0	69.2	63.7	68.0	68.0
Int/PBIT	63.6	38.5	32.2	26.5	23.3
RONW	12.3	33.3	27.5	26.8	28.2
ROCE	14.5	21.7	22.6	24.2	26.1
Tax / PBT	26.7	50.1	38.5	32.0	31.0
TURNOVER					
Net Woking Cycle	112	87	103	104	107
Debtors Velocity (Days)	81	108	91	97	102
Inventory (Days)	90	76	71	76	78
Creditors Velocity (Days)	75	100	82	81	81
Current Ratio	2.8	2.6	3.3	3.2	3.1
Quick Ratio	1.6	1.8	2.2	2.1	2.1
LIQUIDITY					
Gross Asset Ratio	2.7	3.1	3.1	3.3	3.7
Total Asset Ratio	1.2	1.3	1.3	1.4	1.5
Net Debt-Equity Ratio	1.8	1.1	1.1	1.0	0.8
Interest Coverage (x)	1.6	2.6	3.2	3.8	4.3
PAYOUT					
Payout %	7	25	20	20	19
Dividend %	15	130	140	200	250
Yield %	0.1	0.9	1.0	0.9	1.6

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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