

MOTILAL OSWAL

MOST
mid - cap
Research

BSE SENSEX
27,166.87

S&P CNX
8,335.95

	(INR CRORES)		
Y/E MARCH	FY16	FY17E	FY18E
Net sales	1,488	1,804	2,214
EBITDA	224	248	302
APAT	83	107	146
BV/Share (Rs.)	37.3	46.0	58.1
Adj. EPS (Rs.)	8.1	10.4	14.3
EPS growth (%)	36%	28%	37%
P/E (x)	19.3	15.1	11.0
P/BV (x)	4.2	3.4	2.7
EV/EBITDA (x)	9.7	8.1	6.4
Div yld (%)	1.3%	1.1%	0.9%
ROE (%)	28%	25%	28%
RoCE (%)	24%	25%	28%

KEY FINANCIALS

Shares Outstanding (cr)	10.2
Market Cap. (Rs cr)	1432
Market Cap. (US\$ m)	216
Past 3 yrs Sales Growth (%)	20%
Past 3 yrs NP Growth (%)	84%

STOCK DATA

52-W High/Low Range (INR)	220/117
Major Shareholders (as of March 2016)	
Promoter	72.4
Institutions	3.4
Public & Others	24.2
Average Daily Turnover(6 months)	
Volume	51521
Value (Rs cr)	87.8
1/6/12 Month Rel. Performance (%)	-2/-14/-9
1/6/12 Month Abs. Performance (%)	3/-8/-9

CMP: INR157 TP: INR215 (+36%) Buy

PGCIL capex will boost order book: Skipper is a supplier of transmission towers to Power Grid and has one of the largest capacity of towers at 200K tonnes in a 15Lakh tonne industry. India will invite bids for INR1 Lakh worth of power transmission projects in FY17, of which Power Grid is expected to win a lions share of EPC contracts. In addition to EPC, PGCIL is also expected to bag orders on nomination and is also expected to work on the Green corridor at a cost of INR30000cr. Hence, it will be in a position to start inviting bids for spends worth ~INR100,000cr in FY17. All this bodes well for Skipper, who has 46% of the order book from PGCIL and expects to maintain this ratio.

Re-orienting business to focus on domestic opportunities: Order backlog as of March 2016 end was flat at Rs.2429 cr Vs Rs.2448 cr in March 2015. However, the mix in FY16 has changed with 75% domestic orders Vs 50% last year. The company is now witnessing traction from certain state transmission electricity boards with Rs.600 cr of orders from them, which was nil last year. Global volatility in commodities coupled with business uncertainty has impacted order inflows from the South American region. The company has been able to deleverage itself by focussing on India for the next two years. Order traction from state transmission utilities can be the next driver for growth for the Engineering Products segment, with a huge potential depending on the success of the UDAY scheme. Additionally, larger private players entering the transmission sector can add to Skipper's customer profile and help it reduce its dependence on PGCIL.

Backward integration - an advantage for Skipper: Skipper has facilities to roll billets into angles that form the core of transmission towers. Further, the company's facilities are in East India which has steel manufacturing capacities. Inward freight advantage is equal to 3-4% of total cost of tower as compared to majority of the tower manufacturing capacity which is set up near Nagpur (Maharashtra). Further, Skipper has galvanising facilities for upto 14M length and 2Lakh tonnes per annum. All this helps achieve the required quality standards cheap. Also, the company's plants are close to Eastern India's largest ports resulting in lower freight for exports too.

Valuations & View: We expect Skipper to have a 22% revenue CAGR and 32% Profit CAGR over FY16-FY18E.. Hence we see potential for a further rerating from the current 9.8xFY18E EPS. We value Skipper at 15xFY18E and recommend to BUY for a target of INR. 215 from a 1 year perspective.

Skipper Limited

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PVC - a new growth engine : Skipper had increased PVC pipes capacity from 10000 tonnes to 41000 tonnes during FY16 and Q1FY17. This was done in phases, following an asset light model. The company is in the process of ramping up production in its other units and the management expects volume to grow by about 70% and 50% in FY17 and FY18 respectively. The company leases land and sets up a plant so that land acquisition costs and time delays are eliminated. PVC, thus, has potential to become a INR500cr business in the next 3-4 years and raise ROCE of the company.

CONCERNS

Delay in order inflow or execution: Transmission towers account for about 90% of Skipper's sales and the existing order book gives it a visibility of about 2-2.5 years. However, any delay in execution or slowdown in order inflow (both from the domestic and export markets) will impact our earnings estimates.

Foreign exchange fluctuations: As Skipper books income from rolling over/cancellation of forward contracts immediately and the premium it earns depends on the spot rate at the time of roll over, it adds to the uncertainty in predicting the PBT.

New player in PVC segment: Although Skipper has a clear strategy in its expansion in this business, the sector is dominated by the likes of Finolex Industries, Astral Polytechnik, and Supreme Industries. Moreover, the management plans to take Skipper from a regional player to pan-India, following an asset-light strategy that is new to the industry. Any delay in expansion plans or inability to capture sufficient share in any of the markets will impact our growth estimates.

BACKGROUND

Skipper is a power transmission and PVC pipes company engaged in supply of transmission towers to PGCIL and sales of PVC pipes and fittings under the "Skipper Brand". The company has also bagged large orders for exports of power transmission towers. Skipper, run by three third generation and young Bansal brothers from Kolkotta, was listed on Kolkotta stock exchange earlier and is now listed on both the BSE and NSE.

Skipper Limited Financials & Valuation

INCOME STATEMENT (INRCR)						RATIOS					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Net sales	1,042	1,270	1,488	1,804	2,214	Adjusted EPS (INR)	2.8	6.0	8.1	10.4	14.3
Growth	16%	22%	17%	21%	23%	Growth (%)	44%	116%	36%	28%	37%
Other Income	2	44	23	0	0	Cash EPS	4.3	8.1	10.5	13.1	17.2
Total Income	1,044	1,314	1,511	1,804	2,214	Book Value	23.7	29.7	37.3	46.0	58.1
Staff Costs	24	34	50	62	78	DPS	0.2	1.3	1.4	1.5	1.8
Raw material	760	880	948	1,223	1,501	Payout (Incl. Div. Tax)	5%	22%	17%	14%	13%
Other Expenses	139	172	289	271	332	P/E	56.8	26.3	19.3	15.1	11.0
Total Expenditure	923	1,086	1,287	1,556	1,912	Cash P/E	36.4	19.3	15.0	12.0	9.1
EBITDA	120	229	224	248	302	Price/Book Value	6.6	5.3	4.2	3.4	2.7
% of net Sales	11.5%	17.4%	14.8%	13.8%	13.7%	EV/EBITDA	16.1	10.2	9.7	8.1	6.4
Depreciation/Amortization	15	22	24	27	30	EV/Sales	1.9	1.5	1.3	1.1	0.9
Finance Charges	69	70	57	60	55	Div. Yld	0.1%	0.8%	0.9%	1.0%	1.1%
PBT	37	136	143	161	217	RoE	12%	33%	28%	25%	28%
- TAX	10	47	48	54	71	RoCE	16%	24%	24%	25%	28%
APAT	27	61	83	107	146	Debt/Equity (x)	1.9	1.1	1.2	0.9	0.6
Growth	44%	127%	36%	28%	37%						
PATMARGIN	3 %	5 %	6 %	6 %	7 %						

BALANCE SHEET (INRCR)						CASH FLOW (INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
Share Capital	10	10	10	10	10	PBT before EO items	37	136	143	161	217
Reserves	221	294	372	460	584	Add : Depreciation	15	22	24	27	30
Sources of Funds	231	304	382	470	594	Interest	69	70	57	60	55
Debt	439	343	440	420	370	(Inc)/Dec in WC	(12)	39	(118)	(60)	(50)
Other Liabilities	1	0	1	0	0	Others	(6)	(42)	(48)	(54)	(71)
Net deferred tax	22	26	31	31	31	CF from Operations	102	226	58	135	181
SOURCES OF FUNDS	693	673	855	922	996	(Inc)/Dec in Fixed assets	(32)	(30)	(95)	(60)	(50)
Gross Block	394	430	528	588	638	Others	0	0	0	0	0
Less: Depreciation	(57)	(79)	(103)	(130)	(160)	CF from Investing act.	(32)	(30)	(95)	(60)	(50)
Net Block	338	351	425	458	478	Inc/(Dec) in debt	15	(96)	97	(20)	(50)
CWIP	8	3	0	0	0	Dividend paid	(1)	(1)	(16)	(17)	(18)
Investments	0	0	0	0	0	Less: Interest paid	(69)	(70)	(57)	(60)	(55)
Current Assets	533	706	765	867	1,012	Others	(35)	0	0	0	0
Inventories	229	228	250	297	364	CF from Financing act.	(57)	(166)	33	(101)	(124)
Sundry Debtors	232	376	372	451	522	Inc/(Dec) in cash	13	30	(4)	(26)	8
Cash and Bank Balances	26	56	50	26	34	Add: Beginning balance	13	26	56	52	26
Loans and Advances	45	46	93	93	93	Closing Balance	26	56	52	26	34
Other Current Assets	0	0	0	0	0						
Current Liabilities	188	390	336	404	495						
Net Current Assets	345	316	429	464	518						
Other Assets	2	3	0	0	0						
APPLICATION OF FUNDS	693	673	855	922	996						

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Skipper Limited

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