

**Skipper Ltd.****INR 142****Transmission capex play; poised to grow****BUY**

**Skipper Ltd. reported its Q4FY16 results with Net revenue of INR 5,227.3 Mn, growth of 4.66% YoY basis which is in line with our estimates of INR 5,446.5 Mn. The EBITDA stood at INR 734.1 Mn with margin of 13.9% compared to 13.7% YoY and 13.3% on QoQ basis which is higher than our estimates of INR 722 Mn, a increase of 12bps YoY. The PAT remained at INR 361.1 Mn against our estimate of INR 341 Mn, on account of higher other income, with margins at 6.8% in Q4FY16 as against 6.1% YoY and 5% QoQ, an increase of 77bps YoY.**

**Volume growth in transmission business, Increased Export Revenue:** The company registered strong 15.34% volume growth in transmission business in FY16. The share of revenue increased to 45% in FY16, which we believe will reduce in FY17 due increased activity in domestic front. The company has increased its capacity to 1,75,000 MTPA from 1,50,000 last year. We expect the capacity to increase by 20% every year going forward. Also the company has installed India's largest Galvanizing plant with capacity of 8,000T/month enabling the company to manufacture Tower & monopoles of the highest sizes.

**Robust orderbook provide revenue visibility:** Healthy order book of INR 22,000 mn provides visibility of revenue (CAGR FY16-18E: 25.61%) over next 2.5 years. The company is also favorably placed for orders worth INR 2,000 Mn. There are existing unopened bids worth over INR 12,000 under submission for which results are awaited and the company expects to see significant portion getting converted into orders. Order inflows of INR 12,000 mn in FY16 remained healthy. Export orders share in orderbook has reduced to 25% from 45% last year due to increased traction in domestic market.

**Robust growth in PVC business:** In FY16, PVC products business has shown robust growth of 77% YoY basis, on account of increased capacity of 3 times. On the backdrop of increased capacity and low base we expect the growth momentum to continue going forward. We expect the margins in the PVC business will be under pressure for couple of quarters to penetrate the new markets.

**PVC Pipes business expansion on path:** The company increased its PVC capacity 3X during the year to 35,000 MTPA. The will setup another 6,000 MTPA capacity at Hyderabad in Q1FY17. We believe the company will add 20,000 MTPA capacity in FY17 has plans to increase capacity to 1,00,000 MT by FY18-19, which we expect will be completed in the given timeframe.

**Valuation & Outlook:** Robust order book providing revenue visibility in T&D business; multifold expansion in PVC business on a pan India level providing scalable growth opportunities reinforces our belief in sustainable superior earnings performance ahead (EPS CAGR FY16-18E - 42.47%). **We maintain a BUY and TP of INR 248 based on 16x P/E of FY18E EPS and on 8.87x EV/EBITDA FY18E basis, implying 75% upside from current levels. At CMP of INR 142, the company trades at P/E of 9.27x its FY18E EPS of INR15.27.**

**Key Financials:**

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net Sales	10,404	12,702	14,881	18,634	23,479
EBITDA	1,091	1,726	2,011	2,544	3,228
Adj. PAT	258	466	770	1,125	1,563
EPS	2.52	4.55	7.52	11.00	15.27
OPM (%)	10.49	13.59	13.51	13.65	13.75
NPM (%)	2.48	3.67	5.17	6.04	6.66

Source: Company, KRChoksey Research

**Target Price (INR): INR 248****Potential Upside : 75%****Market Data**

Shares outs (Mn)	102
Equity Cap (Mn)	102
Mkt Cap (INR Mn)	14488
52 Wk H/L (INR)	219/116
Avg Vol(3M avg K)	156.98
Face Value (INR)	1
Bloomberg Code	SKIPPER IN

**Market Info:**

SENSEX	25704
NIFTY	7870

**Share Price Performance****Share Holding pattern (%)**

Particulars	Mar16	Dec15	Sep15
Promoters	72.38	72.38	72.38
FIIs	1.1	0	0
DII	0.02	0.02	0
Others	26.5	27.61	27.62
Total	100	100	100

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## Skipper

### Q4FY16 – Detailed Result Analysis (INR Mn):

Particulars	Q4FY16	Q3FY16	Q4FY15	Q-o-Q	Y-o-Y
Net Sales	5227.3	3615.7	4994.7	44.57%	4.66%
Other operating income	70.2	102.0	4.7	-31.18%	1397.65%
<b>Net Sales &amp; Other Operating Income</b>	<b>5297.5</b>	<b>3717.7</b>	<b>4999.4</b>	<b>42.49%</b>	<b>5.96%</b>
Total Expenditure	4563.4	3222.6	4312.5	41.60%	5.82%
Cost of Material Consumed	2593.5	2293.8	2489.4	13.06%	4.18%
Purchase of Stock in Trade	0.0	0.0	0.0	-	-
(Increase) / Decrease In Stocks	819.8	28.3	1127.8	2798.90%	-27.31%
Employee Benefit Expenses	152.4	121.7	87.2	25.25%	74.83%
Other Expenses	997.8	778.9	608.1	28.10%	64.06%
<b>PBIDT (Excl OI)</b>	<b>734.1</b>	<b>495.0</b>	<b>686.9</b>	<b>48.29%</b>	<b>6.87%</b>
<b>EBITDA Margins (%)</b>	<b>13.9%</b>	<b>13.3%</b>	<b>13.7%</b>	<b>54bps</b>	<b>12bps</b>
Depreciation	63.2	61.3	63.4	3.15%	-0.26%
EBIT & exceptional Item	670.9	433.7	623.5	54.67%	7.60%
Other Income	11.0	8.6	0.8	27.86%	1254.32%
Exceptional Items	0.0	0.0	0.0	#DIV/0!	0.00%
EBIT	681.8	442.3	624.3	54.15%	9.22%
Interest	155.4	153.0	153.6	1.59%	1.23%
EBT	526.4	289.3	470.8	81.94%	11.82%
Tax	165.3	102.1	168.2	61.82%	-1.75%
<b>PAT</b>	<b>361.1</b>	<b>187.2</b>	<b>302.6</b>	<b>92.92%</b>	<b>19.36%</b>
<b>PAT Margin (%)</b>	<b>6.8%</b>	<b>5.0%</b>	<b>6.1%</b>	<b>178bps</b>	<b>77bps</b>
<b>EPS</b>	<b>3.53</b>	<b>1.83</b>	<b>2.96</b>	92.90%	19.26%

Source: Company, KRChoksey research

### Segmental revenue:

Particulars	Q4FY16	Q3FY16	Q4FY15	Q-o-Q	Y-o-Y
Infrastructure Projects	80.5	73.9	152.4	8.96%	-47.18%
Engg. Products	4659.4	3272.4	4413.4	42.39%	5.57%
PVC Products	557.6	371.5	433.5	50.10%	28.62%
<b>TOTAL</b>	<b>5297.5</b>	<b>3717.7</b>	<b>4999.4</b>	<b>42.49%</b>	<b>5.96%</b>

Source: Company, KRChoksey research

### Segmental EBIT:

Particulars	Q4FY16	Q3FY16	Q4FY15	Q-o-Q	Y-o-Y
Infrastructure Projects	4.4	14.1	12.5	-68.47%	-64.48%
Engg. Products	674.5	481.4	566.5	40.11%	19.07%
PVC Products	54.9	37.7	55.3	45.60%	-0.66%
<b>Total</b>	<b>733.9</b>	<b>533.3</b>	<b>634.3</b>	<b>37.63%</b>	<b>15.70%</b>
Less: interest Exp	155.4	153.1	153.6	1.54%	1.23%
Add/Less: other unallocable	52.1	91.1	10.0	-42.81%	419.68%
<b>PBT</b>	<b>526.4</b>	<b>289.1</b>	<b>470.8</b>	<b>82.07%</b>	<b>11.82%</b>

Source: Company, KRChoksey research

### Segment Margins:

Particulars	Q4FY16	Q3FY16	Q4FY15	Q-o-Q	Y-o-Y
Infrastructure Projects	5.52%	19.07%	8.21%	-1355bps	-269bps
Engg. Products	14.48%	14.71%	12.84%	-24bps	164bps
PVC Products	9.85%	10.16%	12.76%	-30bps	-290bps

Source: Company, KRChoksey research

## Profit &amp; Loss Account:

Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	10,404	12,702	14,881	18,634	23,479
YoY % growth	15.75%	22.09%	17.15%	25.22%	26.00%
Raw material cost	7,870	8,551	9,538	12,559	15,825
(Inc)/Dec in stock in trade	-269	246	-53	335	423
Staff cost	274	341	500	494	622
Other expense	1,439	1,838	2,885	2,702	3,381
Total Expenditure	9,313	10,976	12,870	16,090	20,251
<b>EBITDA</b>	<b>1,091</b>	<b>1,726</b>	<b>2,011</b>	<b>2,544</b>	<b>3,228</b>
YoY % growth	30.25%	58.20%	16.52%	26.47%	26.93%
EBITDA margin (%)	10.49%	13.59%	13.51%	13.65%	13.75%
Depreciation	151	220	241	307	340
<b>EBIT</b>	<b>940</b>	<b>1,506</b>	<b>1,770</b>	<b>2,237</b>	<b>2,889</b>
Interest	605	583	570	570	570
Other income	21	17	52	28	35
Exceptional item (Forex)	-11	-426	-181	-	-
<b>Profit Before Tax</b>	<b>367</b>	<b>1,366</b>	<b>1,433</b>	<b>1,695</b>	<b>2,354</b>
Tax	98	474	482	570	791
Effective Tax Rate (%)	26.71%	34.71%	33.61%	33.61%	33.61%
<b>Reported PAT</b>	<b>269</b>	<b>892</b>	<b>951</b>	<b>1,125</b>	<b>1,563</b>
YoY % growth	43.82%	231.37%	6.68%	18.28%	38.89%
PAT Margin (%)	2.59%	7.02%	6.39%	6.04%	6.66%
<b>Adjusted PAT</b>	<b>269</b>	<b>892</b>	<b>951</b>	<b>1,125</b>	<b>1,563</b>
YoY % growth	49.93%	80.65%	65.22%	46.14%	38.89%
Adj. PAT Margin (%)	2.48%	3.67%	5.17%	6.04%	6.66%
Reported EPS	2.63	8.71	9.30	11.00	15.27
Adj. EPS	2.52	4.55	7.52	11.00	15.27

Source: Company, KRChoksey research

Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Share capital	102	102	102	102	102
Reserves	2,209	2,936	3,713	4,680	6,083
Net worth	2,312	3,039	3,815	4,783	6,185
Long-term Loans	2,639	2,105	1,983	1,900	1,900
Short-term Loans	1,755	1,724	2,419	2,550	2,500
Total Loans	4,395	3,829	4,403	4,450	4,400
Deferred Tax Liability Net	218	265	315	315	315
<b>Liabilities</b>	<b>6,924</b>	<b>7,132</b>	<b>8,533</b>	<b>9,547</b>	<b>10,900</b>
Gross Block	3,943	4,295	5,275	5,875	6,475
Depreciation	558	782	1,023	1,330	1,670
Net Block	3,385	3,513	4,252	4,545	4,806
Capital work-in-progress	83	35	-	-	-
Inventories	2,290	2,282	2,500	3,829	4,825
Trade Receivables	2,318	3,758	3,724	4,850	6,111
Cash and bank balances	263	561	498	765	755
Loans and advances	455	458	929	715	901
Other Current assets	21	31	-	37	47
Total Current assets	5,347	7,090	7,651	10,195	12,638
Trade Payables	1,563	2,415	2,124	3,829	4,825
Other current liabilities & provisions	328	1,090	1,246	1,364	1,719
Total current liabilities	1,891	3,505	3,370	5,193	6,544
Net current assets	3,456	3,585	4,281	5,002	6,094
<b>Total Assets</b>	<b>6,924</b>	<b>7,132</b>	<b>8,533</b>	<b>9,547</b>	<b>10,900</b>

Source: Company, KRChoksey research

Cashflow:

Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
PBT	367	1,366	1,433	1,695	2,354
Depreciation	151	220	241	307	340
(Inc)/Dec in working capital	-134	170	-759	-455	-1,102
Interest paid	605	583	570	570	570
Tax paid	-62	-427	-432	-570	-791
<b>Cash flow from operations</b>	<b>928</b>	<b>1,911</b>	<b>1,053</b>	<b>1,547</b>	<b>1,370</b>
<b>Net cash from operations</b>	<b>928</b>	<b>1,911</b>	<b>1,053</b>	<b>1,547</b>	<b>1,370</b>
Capital expenditure (-)	-321	-299	-946	-600	-600
<b>Net cash after capex</b>	<b>607</b>	<b>1,612</b>	<b>108</b>	<b>947</b>	<b>770</b>
Inc./(Dec.) in short-term borrowing	-235	-31	695	131	-50
Inc./(dec.) in long-term borrowing	387	-535	-121	-83	-
Inc./(Dec.) in preference capital	-	-	-	-	-
Inc./(dec.) in total borrowings	152	-566	574	47	-50
Equity issue/(Buyback)	0	-	-	-	-
Interest paid	-605	-583	-570	-570	-570
Dividends paid	-18	-160	-172	-160	-160
<b>Cash from Financial Activities</b>	<b>-472</b>	<b>-1,309</b>	<b>-168</b>	<b>-683</b>	<b>-780</b>
Others	-0	-5	-2	2	-
Opening cash	128	263	561	498	765
Closing cash	263	561	498	765	755
<b>Change in cash</b>	<b>135</b>	<b>298</b>	<b>-63</b>	<b>267</b>	<b>-10</b>

Source: Company, KRChoksey research

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### Ratios:

Particulars (INR mn)	FY14	FY15	FY16	FY17E	FY18E
<b>Per share (INR)</b>					
EPS	2.63	8.71	9.30	11.00	15.27
Adj. EPS	2.52	4.55	7.52	11.00	15.27
Book value	22.59	29.70	37.29	46.74	60.45
<b>Valuation (x)</b>					
P/E	13.97	17.53	15.23	12.88	9.27
P/E (Adj EPS)	14.58	33.55	18.82	12.88	9.27
P/BV	1.63	5.15	3.80	3.03	2.34
EV/EBITDA	7.23	10.95	9.15	7.15	5.62
EV/Sales	0.76	1.49	1.24	0.98	0.77
<b>Return ratio (%)</b>					
RoCE	14.02	21.93	21.54	24.23	27.29
RoE	11.16	15.34	20.18	23.53	25.27
RoIC	14.59	23.88	22.93	26.42	29.39
<b>Profitability ratio (%)</b>					
EBITDA margin	10.49%	13.59%	13.51%	13.65%	13.75%
EBIT margin	9.04%	11.86%	11.89%	12.00%	12.30%
PBT margin	3.53%	10.75%	9.63%	9.10%	10.03%
PAT margin	2.48%	3.67%	5.17%	6.04%	6.66%
Adj PAT margin	2.48%	3.67%	5.17%	6.04%	6.66%
<b>Turnover ratio</b>					
Asset turnover ratio (x)	1.50	1.78	1.74	1.95	2.15
Debtor days	81	108	91	95	95
Inventory days	80	66	61	75	75
Creditors days	55	69	52	75	75
<b>Solvency ratio (x)</b>					
Debt-equity	1.90	1.26	1.15	0.93	0.71
Interest coverage	1.55	2.59	3.10	3.92	5.07

Source: Company, KRChoksey research

Skipper Ltd.				Rating Legend	
Date	CMP (Rs.)	TGT (Rs.)	Recommendation	Our Rating	Upside
19-May-16	142	248	BUY	Buy	More than 15%
03-Feb-16	163	248	BUY	Accumulate	5% - 15%
04-Jan-16	177	285	BUY	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

**ANALYST CERTIFICATION:**

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