



Asian Markets Securities Pvt. Ltd.

Institutional Research

CMP (Rs)	120
Target (Rs)	201

Nifty: 11,430; Sensex: 37,869

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs2)	102.3
Market Cap (Rs bn)	12.3
52-Week High / Low	293/118
3-M Daily Avg. Vol.	1,16,579

Relative Performance

(%)	1m	3m	12m
SKIPPER	(29.3)	(37.5)	(40.1)
NIFTY	3.7	5.8	17.7
Sensex	3.6	6.6	21.3

Shareholding Pattern

(%)	Dec17	Mar18	Jun18
Promoter	70.4	70.2	70.2
FII	6.2	6.2	6.3
DII	8.1	9.2	9.4
Others	15.4	14.4	14.1

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Skipper Ltd

High interest cost impacted profitability.....

Skipper Limited (Skipper); reported strong 1QFY19 revenues with 20% yoy growth to Rs 4.8bn, led by Engineering segment growth of 20.2% yoy (On like to like basis). Adjusted PAT declined by 3.2% to Rs86bn, on the back of higher interest cost and depreciation. EBITDA grew by 25% yoy to Rs508mn and EBITDAM (Excl. forex) improved by 42bp to 10.6%. Order book stands at Rs25bn as on date with 1.34x book-to-bill. Order inflow of Rs2.2bn is lower than the execution and is a cause of concern. We remain watchful of new order inflow for the future growth. Management expects revenue growth of 15%+ and EBITDAM of 13% for FY19. In PVC products business; company has changed strategy to expand reach & gain market share and expects PVC segment sales to grow at 40-50% with negligible EBITM for next 2 to 3 quarters. We have reduced our earnings estimate by 26% each in FY19/FY20, respectively, on the back of lower EBIT in polymer segment and higher interest cost. Given the growing engineering business, expansion in PVC segment, and cheap valuations; we remain positive on the business and the stock. We maintain BUY rating with a TP of Rs 201, based on 15x PER of FY20E EPS.

1QFY19 reported strong revenue of 20% while EBITDAM improved to 10.6%: Revenue grew by 20% yoy to Rs4.8bn, on the back of strong 20.2% yoy growth in Engineering Products segment. EBITDA increased by 25% yoy to Rs508mn, While EBITDAM improved by 42bp to 10.6%. Adjusted PAT decreased by 3.2% yoy to Rs86mn, due to higher interest cost. Engineering Products segment reported revenue growth of 20.2% yoy to Rs4.04bn, on the back of strong volume execution. EBITM (Ex forex) improved by 158bp to 11.4%. Polymer revenue grew by 45.9% yoy to Rs561mn and reported EBIT loss of Rs7mn, on account of increased spending on brand building and dealer incentives. Infrastructure Projects revenue down by 23.7% yoy to Rs 185mn, EBIT decreased by 19.2% to Rs24bn and EBITM stands at 12.9%.

Order book status: Skipper has current order book of over Rs 25bn, amounting to a book-to-bill of 1.3x of FY18 revenue. Order Intake of Rs 2.25bn in Q1 FY'19 is lower than estimates. PGCIL/SEB/Export order book stands at 45%/40%/15% of total order book respectively. Management indicates healthy order pipeline from north east and East Indian states like Tamilnadu, Karnataka, Jharkhand, Orissa & Bihar. We remain watchful of order inflow to sustain the future revenue growth visibility.

Polymer Business: Change in Strategy; to chase revenue and penetration: Skipper has opted a strategy to increase penetration in its Polymer business by taking various measures including higher advertising, Brand promotion and dealer incentives. This is expected to provide strong revenue growth of 40-50% but would come at the cost of margins. Management guided subdued/negligible margins for next 2-3 quarters before coming at normal levels. However, we believe margin recovery would be a gradual process and would take longer time to come back to earlier level of 7-8% EBITM. We expect 36% revenue CAGR with EBITM of 0%/2% in FY19/FY20.

Outlook and Valuations: We estimate revenue CAGR of 19.5% and Adj PAT CAGR 17.2% during FY18-20E. Return ratios in FY20 to be at ROCE at 20.4% and ROE at 17.7%. At Current price stock is trading at 12.4x/8.9x in FY19/20E respectively. Given the positively placed business model to capture growth of TLT segment backed by public spending, opportunity in exports, benefits of backwards integration, expansion in capacities, healthy return ratios, young management team and cheaper valuations; we maintain BUY rating with a revised TP of Rs201, based on 15x PER of FY20E EPS. We remain cautious on new order inflow, Debt and the working capital situation and would review our rating and call based on developments in these areas.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Sales	16,069	20,234	24,524	28,659
yoy (%)	9.9	25.9	21.2	16.9
EBITDA	2,196	2,749	2,833	3,347
yoy (%)	9.2	25.2	3.0	18.2
Adjusted PAT	872	997	988	1,369
yoy (%)	5.0	14.4	(0.9)	38.5
Equity	102	103	103	103
EPS	8.5	9.7	9.7	13.4

Exhibit 2: Key Ratios

Y/E Mar	FY17	FY18	FY19E	FY20E
EBITDAM (%)	13.6	13.4	11.6	11.7
NPM (%)	5.4	4.9	4.0	4.8
PER (x)	9.9	10.4	12.4	8.9
P/BV (x)	2.3	1.9	1.7	1.5
EV/Sales (x)	1.0	0.8	0.7	0.6
EV/ EBITDA (x)	7.5	6.2	6.3	5.3
RoACE (%)	19.4	20.8	18.8	20.4
RoANW (%)	26.0	20.1	14.6	17.7

Skipper Ltd / 1QFY19 Result Update

Source: Company, AMSEC Research

Exhibit 3: Skipper Ltd: 1Q FY19 quarterly results

Y/E March (Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	yoY (%)	qoq (%)	FY17	FY18	yoY (%)
Net Sales	3988	5156	5664	5929	4787	20.0	-19.3	16646	20737	24.6
Other Operational Income	0	0	0	0	0	-	-	0	0	-
Total Sales	3988	5156	5664	5929	4787	20.0	-19.3	16646	20737	24.6
Stock Adjustment	-486	-397	210	-769	-406	-16.4	-47.2	-821	-1442	75.6
Cons. of Raw Materials	2956	3855	3693	4185	3659	23.8	-12.6	11730	14688	25.2
Employee Cost	210	251	236	237	235	11.7	-1.1	745	934	25.4
Other Expenditure	901	765	786	1190	791	-12.2	-33.5	2797	3808	36.1
Total Expenditure	3582	4473	4923	4843	4279	19.5	-11.6	14450	17988	24.5
EBITDA	407	683	741	1086	508	25.0	-53.2	2196	2749	25.2
Add: Other Income	8	3	3	8	3	-56.9	-58.7	32	22	-30.6
Interest	169	200	176	239	274	62.6	14.5	671	784	16.9
Depreciation	107	121	118	113	115	7.2	1.5	316	459	45.4
Excp. Item	109	0	0	0	-59	-	-	526	276	-47.5
Profit Before Tax	248	365	450	741	64	-74.2	-91.4	1767	1804	2.1
Provision for Taxation	88	133	158	247	19	-	-	525	626	19.3
PAT	160	232	292	493	45	-71.8	-90.9	1242	1178	-5.2
Extra Ordinary Income	71	0	0	0	-41	-	-	370	180	-51.3
Adj Net Profit	89	232	292	493	86	-3.2	-82.5	872	997	14.3
Equity Capital (FV Rs 1)	102	102	102	102	102	-	-	102	102	-
Basic EPS (Rs)	1.6	2.3	2.9	4.8	0.4	-	-	12.1	11.5	-
Adjusted EPS (In Rs)	0.9	2.3	2.9	4.8	0.8	-	-	8.5	9.7	-
EBITDA (%)	10.2	13.2	13.1	18.3	10.6	42bp	(769bp)	13.2	13.3	7bp
PAT (%)	0.5	4.5	5.2	8.3	2.7	220bp	(565bp)	3.0	3.9	92bp
Tax / PBT (%)	35.5	36.4	35.1	33.4	29.5	(601bp)	(392bp)	29.7	34.7	501bp
Employee Cost/Net Sales(%)	5.3	4.9	4.2	4.0	4.9	(36bp)	90bp	4.5	4.5	3bp
Others Exp/Net sales (%)	22.6	14.8	13.9	20.1	16.5	(607bp)	(354bp)	16.8	18.4	156bp
Raw Mat. / Net Sales (%)	61.9	67.1	68.9	57.6	68.0	602bp	1033bp	65.5	63.9	(165bp)

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 1Q FY19 Segmental finance

Y/E March(Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	yoY (%)	qoq (%)	FY17	FY18	yoY%
Segment Revenue										
Engineering Products	3651	4634	4863	4924	4041	10.7	-17.9	13887	18072	30.1
PVC products	433	428	540	748	561	29.5	-25.0	1953	2149	10.0
Infrastructure Projects	243	95	261	257	185	-23.7	-27.9	805	855	6.2
Total Segment Revenue	4327	5156	5664	5929	4787	10.6	-19.3	16646	21076	26.6
Segment Results										
Engineering Products	330	606	639	964	461	39.5	-52.2	1810	2372	31.1
PVC products	31	28	36	56	-7	-124.1	-113.3	166	151	-9.0
Infrastructure Projects	29	11	32	35	24	-19.2	-32.7	114	108	-5.5
Total	390	645	707	1055	477	22.1	-54.8	2090	2631	25.9
Less: Interest (Net)	164	197	173	236	271	65.0	14.7	644	771	19.7
Other Unallocable Exp.	88	83	83	78	83	-5.1	7.4	204	332	62.5
Exceptional Items	109	0	0	0	-59	-	-	526	276	-
Profit Before Tax	248	365	450	741	64	-74.2	-91.4	1767	1804	2.1
Capital Employed										
Engineering Products	8123	8838	10078	8637	10948	34.8	26.8	7293	8637	18.4
PVC products	2083	2096	2218	2359	2407	15.5	2.0	2031	2359	16.1
Infrastructure Projects	596	624	700	748	649	8.9	-13.2	574	748	30.4
Unallocated	-123	-343	-360	-399	-372	201.5	-6.8	-204	-399	95.4
Total Segment Cap. Emp.	10679	11215	12637	11345	13632	27.6	20.2	9693	11345	17.0
EBIT Margin										
Engineering Products	9.0	13.1	13.1	19.6	11.4	236bp	(817bp)	13.0	13.1	9bp
PVC products	7.1	6.6	6.7	7.5	-1.3	(846bp)	(879bp)	8.5	7.0	(146bp)
Infrastructure Projects	12.1	11.9	12.3	13.8	12.9	72bp	(91bp)	14.2	12.6	(157bp)
Total EBIT Margin	9.0	12.5	12.5	17.8	10.0	94bp	(783bp)	12.6	12.5	(7bp)
ROCE (%)										
Engineering Products	4.1	6.9	6.3	11.2	4.2	14bp	(695bp)	24.8	27.5	265bp
PVC products	1.5	1.3	1.6	2.4	-0.3	(179bp)	(268bp)	8.2	6.4	(177bp)
Infrastructure Projects	4.9	1.8	4.6	4.7	3.7	(127bp)	(106bp)	19.9	14.4	(550bp)
Total ROCE	3.7	5.8	5.6	9.3	3.5	(16bp)	(580bp)	21.6	23.2	163bp

Source: Company, AMSEC Research

Exhibit 5: Segment Revenue (Net of Excise duty)

P&L (Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	yoY (%)	qoq (%)	FY17	FY18	YoY %
Segment Revenue										
Engineering Products	3361	4634	4863	4924	4041	20.2	-17.9	13887	17782	28.0
PVC products	384	428	540	748	561	45.9	-25.0	1953	2100	7.5
Infrastructure Projects	243	95	261	257	185	-23.7	-27.9	805	855	6.2
Total Segment Revenue	3988	5156	5664	5929	4787	20.0	-19.3	16646	20737	24.6
EBIT Margin										
Engineering Products	9.8	13.1	13.1	19.6	11.4	158bp	(817bp)	13.0	13.3	31bp
PVC products	8.0	6.6	6.7	7.5	-1.3	(937bp)	(879bp)	8.5	7.2	(130bp)
Infrastructure Projects	12.1	11.9	12.3	13.8	12.9	72bp	(91bp)	14.2	12.6	(157bp)
Total Segment Revenue	9.8	12.5	12.5	17.8	10.0	17bp	(783bp)	12.6	12.7	13bp

Source: Company, AMSEC Research

Concall Highlights

- **Guidance for FY19:** In Engineering business segment management expect 15-20% sales growth with EBITM of 13%, while in PVC products business expect 40-50% sales growth with lower single digit margin, due to expansion drive.
- Utilization level in Engineering product segment stands at 90-91% and in PVC products is close to 60% in Q1FY19 Vs 50% during FY18.
- In engineering product segment; company has increased 2-3% price, while in PVC segment below 5% price increased during quarter.
- **CAPEX:** Management expects Rs500-600mn capex in FY19, Entirely for engineering product division.
- Order book as on June'18 stands at Rs25bn and received order inflow of Rs2.25bn in Q1FY19 for engineering products segment from various clients both domestic and for exports.
- Engineering segment grew by 20% to Rs4.04bn, led by 2-3% value growth and rest are volume growth. Domestic sales in engineering segment is 88-90% and export are 10-12%.
- Higher execution of fixed price contract restricted margin in tower business in Q1FY19. Currently, Fixed price contract in order book is 20-25% and rest are variable based contract.
- High interest cost impacted profitability, Debt has gone up to fund increased working capital. Total capital employed went up by Rs2.28bn qoq owing hi high inventory built-up for subsequent supply obligation and temporary increase in debtor collection period. Management expects these to get normalized by year end with Debtors, Creditors and Inventory levels at ~80-90days of sales.
- PVC segment reported loss of Rs7bn, because of increased spending on brand building and dealer incentives.
- Company has Entered the newer market geographies and bagged orders in the countries of Panama & Paraguay. Skipper has Cleared SIRIM audit and this enables to export to the Malaysian market.
- Reported pat for impacted significantly due to Forex gain and loss. Company indicated a large portion of the same is notional in nature. Company incurred a loss of Rs59mn in 1QFY19 Vs a gain of Rs109mn yoy.

Exhibit 6: Quarterly Revenue Trend

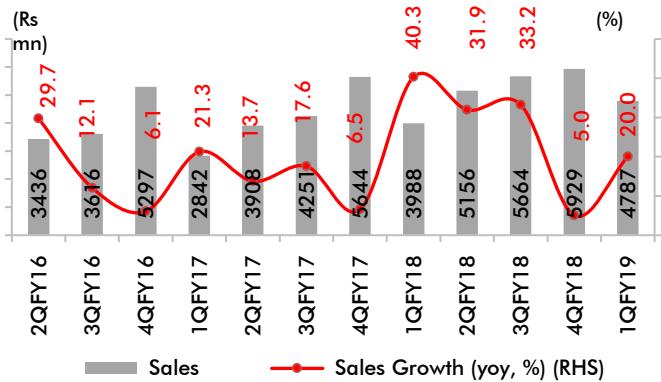


Exhibit 7: Quarterly revenue breakdown (%)

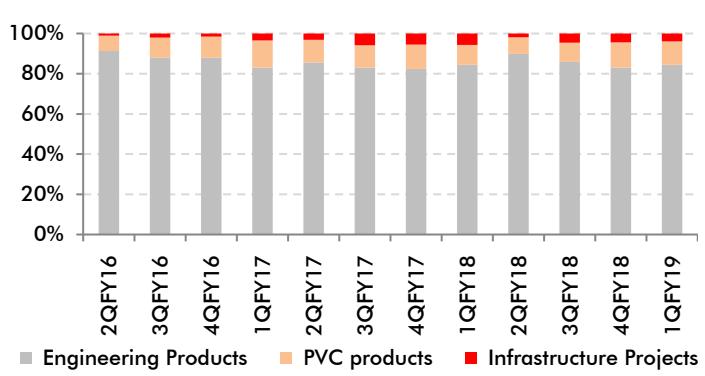


Exhibit 8: Quarterly EBITDA Trend

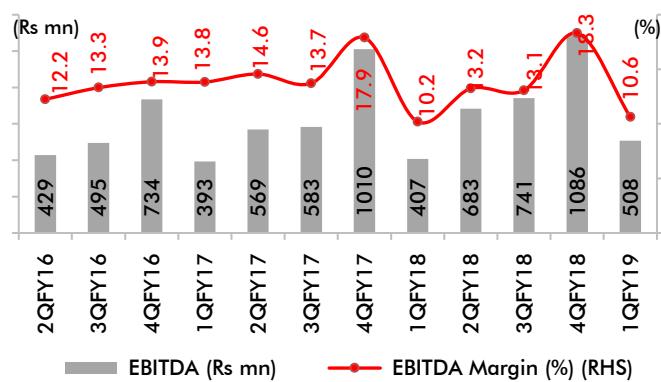


Exhibit 9: Quarterly Adj PAT Trend

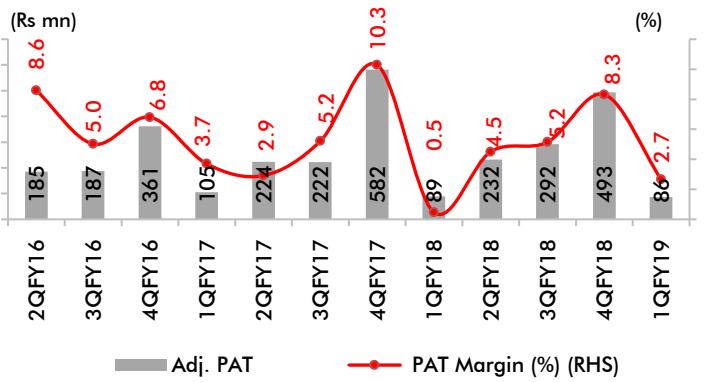


Exhibit 10: Quarterly Engineering Products trend

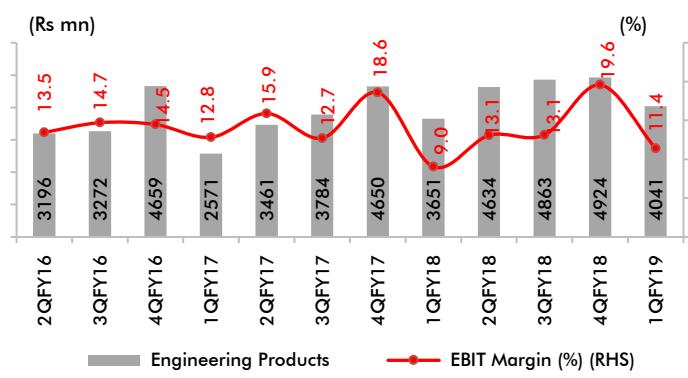


Exhibit 11: Quarterly PVC products trend

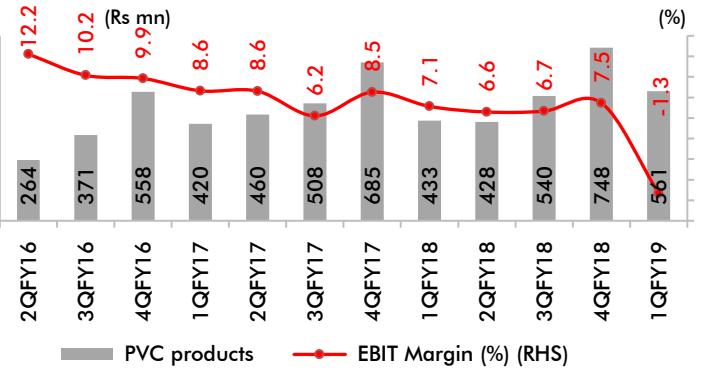


Exhibit 12: Quarterly Infrastructure project trend

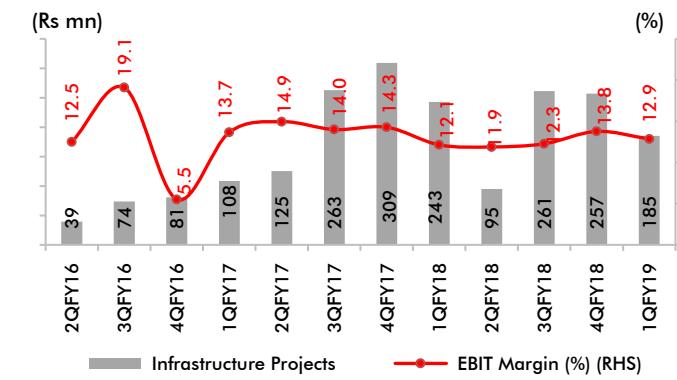
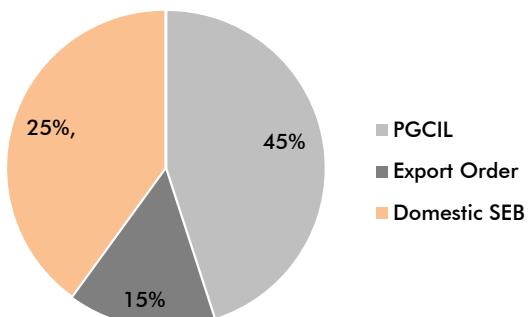


Exhibit 13: Order book Mix



Source: AMSEC Research

Financials (Standalone)
(Rs mn)

Profit & Loss Account				Cash Flow Statement					
Particulars	FY17	FY18	FY19E	FY20E	Particulars	FY17	FY18	FY19E	FY20E
Net sales	16,069	20,234	24,524	28,659	PBT	1,767	1,804	1,432	1,901
Other operating income	51	227	-	-	Non-cash adjustments	284	437	448	477
Consumption of materials	10,908	13,246	16,725	19,545	Changes in working capital	(536)	(1,676)	(1,202)	(1,125)
Staff Expenses	745	934	1,005	1,175	Interest Paid	671	784	952	969
Other operating expenses	2,271	3,532	3,961	4,591	Tax Paid & Other Adj	(456)	(528)	(444)	(532)
Total Expenditure	13,924	17,712	21,691	25,311	Cashflow from operations	1,730	821	1,186	1,690
EBITDA	2,196	2,749	2,833	3,347	Capital exp. & Advances	(847)	(535)	(604)	(600)
Depreciation	316	459	468	497	Change in investments	-	-	(130)	-
Operating profit	1,880	2,290	2,365	2,850	Other investing cashflow	32	22	20	20
Other income	32	22	20	20	Cashflow from investing	(816)	(513)	(714)	(580)
EBIT	1,912	2,312	2,385	2,870	Issue of equity	-	0	-	-
Interest	671	784	952	969	Issue/repay debt	(300)	600	800	100
Exceptional items	526	276	-	-	Interest Paid	(671)	(784)	(952)	(969)
Profit before tax	1,767	1,804	1,432	1,901	Dividends paid	(192)	(198)	(198)	(251)
Tax	525	626	444	532	Other financing cashflow	-	-	-	-
Minority interest	-	-	-	-	Cashflow from financing	(1,163)	(382)	(350)	(1,120)
Reported net profit	1,242	1,178	988	1,369	Change in cash & cash	(249)	(74)	122	(10)
EO Items	370	180	-	-	Opening cash & cash eq	498	249	176	298
Adjusted net profit	872	997	988	1,369	Closing cash & cash eq	249	176	298	288
Share O/s mn	102	102	102	102	Free cash flow to firm	882	286	582	1,090
EPS Rs (adjusted)	8.5	9.7	9.7	13.4					
Balance Sheet									
Particulars	FY17	FY18	FY19E	FY20E	Ratios				
SOURCES OF FUNDS :					Particulars	FY17	FY18	FY19E	FY20E
Share Capital	102	103	103	103	PER SHARE				
Reserves	5,219	6,270	7,061	8,178	EPS Rs (adjusted)	8.5	9.7	9.7	13.4
Minority Interest	-	-	-	-	CEPS Rs	11.6	14.2	14.2	18.2
Total Shareholders Funds	5,321	6,373	7,163	8,281	Book Value Rs	52.0	62.3	70.0	80.9
Non-Current Liabilities	2,405	2,255	2,255	2,255	VALUATION				
Long term borrowings	1,754	1,667	1,667	1,667	EV / Net Sales	1.0	0.8	0.7	0.6
Deferred tax liability	626	539	539	539	EV / EBITDA	7.5	6.2	6.3	5.3
Other long term liabilities	-	-	-	-	P / E Ratio	9.9	10.4	12.4	8.9
Long-term provisions	25	50	50	50	P / BV Ratio	2.3	1.9	1.7	1.5
Current Liabilities	6,183	8,807	10,384	11,479	GROWTH YOY%				
Short term borrowings	2,400	2,947	3,747	3,847	Sales Growth	9.9	25.9	21.2	16.9
Trade payables	2,892	4,903	5,509	6,281	EBITDA Growth	9.2	25.2	3.0	18.2
Other current liabilities	886	782	926	1,116	Net Profit Growth	5.0	14.4	(0.9)	38.5
Short term provisions	5	176	202	236	Gross Fixed Asset Growth	21.3	10.5	8.6	7.9
Total Equity & Liabilities:	13,909	17,435	19,802	22,015	PROFITABILITY (%)				
APPLICATION OF FUNDS :									
Non Current Assets	5,276	5,263	5,529	5,632	Gross Profit/ Net sales	21.7	23.8	21.6	21.7
Gross block (Total)	6,285	6,948	7,548	8,148	EBITDA / Net Sales	13.6	13.4	11.6	11.7
Less : accumulated depreciation	1,317	1,739	2,207	2,705	EBIT / Net sales	11.7	11.3	9.6	9.9
Net block (Total)	4,968	5,209	5,341	5,444	NPM / Total income	5.4	4.9	4.0	4.8
Capital work in progress	144	16	20	20	Raw Material/Net Sales	67.7	64.7	68.2	68.2
Noncurrent investment	-	-	130	130	Int/PBIT	35.7	34.3	40.3	34.0
Long term loans and advances	8	9	9	9	RONW	26.0	20.1	14.6	17.7
Other non-current assets	156	29	29	29	ROCE	19.4	20.8	18.8	20.4
Current Assets	8,632	12,173	14,273	16,384	Tax / PBT	29.7	34.7	31.0	28.0
Current investment	-	-	-	-	TURNOVER				
Inventories	3,682	5,623	6,517	7,459	Net Working Cycle	112	116	114	112
Sundry debtors	3,722	5,164	6,047	6,988	Debtors Velocity (Days)	84	92	90	89
Cash and bank	249	176	298	288	Inventory (Days)	97	116	110	108
Short loans and advances	979	1,210	1,411	1,649	Creditors Velocity (Days)	97	135	120	117
Others current assets	-	-	-	-	Current Ratio	2.4	2.2	2.3	2.3
Total Assets	13,909	17,435	19,802	22,015	Quick Ratio	1.4	1.2	1.2	1.2
Net Working Capital*	4,819	6,495	7,697	8,822	LIQUIDITY				
Total Gross Debt*	4,371.9	4,972	5,772	5,872	Gross Asset Ratio	2.8	3.1	3.4	3.7
Total Net Debt	4,122	4,796	5,474	5,584	Total Asset Ratio	1.2	1.3	1.3	1.4
Capital Employed*	10,319	11,883	13,474	14,692	Net Debt-Equity Ratio	0.8	0.8	0.8	0.7
					Interest Coverage (x)	2.8	2.9	2.5	3.0
PAYOUT									
					Payout %	22	20	20	18
					Dividend %	160	165	165	210
					Yield %	1.3	1.4	1.4	1.8

Source: Company, AMSEC Research

Recommendation rationale**Sector rating**

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

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.

Disclosures

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