

Skipper Ltd

BUY



Asian Markets Securities Pvt. Ltd.

Institutional Research

CMP (Rs)	155
Target (Rs)	236

Nifty: 8,769; Sensex: 28,290

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FV Rs 2)	102.3
Market Cap (Rs bn)	15.9
52-Week High / Low	168 / 122
3-M Daily Avg. Vol.	1,70,643

Relative Performance

(%)	1m	3m	12m
SKIPPER	8.5	8.9	(1.8)
NIFTY	6.4	2.6	18.7
Sensex	5.7	2.5	16.5

Shareholding Pattern

(%)	Jun16	Sep16	Dec16
Promoter	72.4	72.4	72.4
FII	0.2	1.5	1.5
DII	3.0	3.1	4.6
Others	24.5	23.0	21.6

Amber Singhania
amber.singhania@amsec.in
+91 22 4343 5296

Healthy long term outlook amid short term headwind.....

Skipper Limited (Skipper); reported 3QFY17 results with 15.8% yoy sales growth. The revenue in PVC products increase by 26.6% yoy, whereas engineering segment revenue grew by 9.1% yoy with similar volume growth. Adjusted PAT stood at Rs 223mn up 19.5% yoy. Management guided a ~15-20% revenue growth for FY17. Order book stand at 20.5bn as on 3QFY17 with 1.4x book-to-bill. Further the bidding pipeline continues to be strong. Company is seeing some impact of demonetisation on PVC products sales both in Q3 as well as Q4FY17. We revise our earnings estimates downwards for FY17E by 18.0% and FY18E by 16.7%; factoring lower revenue growth and margins; due to demonetization and lower export order incentive. We arrived at a revised EPS of Rs 9.4 in FY17E, Rs 12.5 in FY18E and introduce FY19E earnings estimate at Rs 15.7. Given the strong business model, healthy 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 236, based on 15x PER of FY19E EPS.

3QFY17 reported strong results with Engineering segment EBIT margin of 13.1%: Revenue grew at 15.8% yoy to Rs4.3bn, on the back of strong growth in PVC and infra project despite demonetisation impact. whereas PVC segment revenue grew by 26.6% yoy led by pan India presence. Engineering product segment EBIT margin remained healthy at 13.1%, owing to higher domestic sales. Adjusted PAT came in higher at Rs 223mn registering a growth of 19.5% yoy. Infrastructure segment revenue grew healthy at 258.3% yoy to Rs265mn with a healthy EBITM of 13.4%.

9MFY17 shows results with 16.5% yoy sales growth, Engineering Products segment reported 11.4% yoy growth, PVC products segment reported 32.8% yoy growth and Infrastructure Projects segment reported 154.2% yoy growth. EBITM remained healthy at 13.8% for Engineering products and 13.3 in infra project. Whereas plastic products EBITM declined to 8.4% due to demonetisation impact.

Order book declined YTD but has strong pipeline to support revenues during FY16-FY19: Skipper has current order book of over Rs20.3bn, amounting to a book-to-bill of 1.4x FY16 revenue. However the company has bided for orders worth Rs11bn and further bidding for Rs5-6bn worth of orders by March. We expect healthy order inflow from PGCIL, SEB tenders and from International region will provide a healthy growth visibility in next few months.

Introduces FY19 estimates with EPS of Rs 12.5 and revised FY17 & FY18 estimates downwards: We have reduced our FY17E and FY18E EPS by 18% and 16.7% respectively to factor in lower revenues and EBITDAM owing to demonetisation and lower export revenue. We have factored in revenue CAGR of 16.8% during FY16-19E. The management guided revenue growth of 15-20% in FY17E.

Capacity expansion on track: Skipper will expand its PVC capacity to 51,000 TPA from current 41,000TPA during FY17E; by adding HDPE pipe manufacturing capacity of 3000TPA, Overhead Tanks capacity of 1200TPA and additional CPVC capacity of 7000TPA. The total capex along with tower capacity of 30,000 TPA would be Rs770 mn. Management guided the new capacity to come upstream by March'17. We have factored in sales volume of 28,700 TPA in FY17E and 36,900 TPA in FY18E.

Outlook and Valuations: We estimate the revenue and Adj PAT CAGR of 16.8% and 24.1% during FY16-19E. Return ratios to improve in FY19E with ROCE at 25.6% and ROE at 25.7%. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, opportunity in exports, significant improvement in EBITDAM due to restructuring of operations, benefits of backwards integration, 4x expansion in PVC segment, strong return ratios, healthy growth and young management team; we believe SKIPPER has a strong business prospects. We maintain our BUY rating and a TP of Rs236 based on 15x PER of FY19E EPS. At CMP the stock is trading at 12.4x FY18E and 9.9x FY19E.

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E	Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
Sales	12,702	14,624	17,054	19,906	23,278	EBITDAM (%)	13.6	13.5	13.7	13.9	13.9
yoY (%)	22.0	15.1	16.6	16.7	16.9	NPM (%)	5.4	5.6	5.6	6.4	6.9
EBITDA	1,731	2,011	2,333	2,757	3,236	PER (x)	17.8	16.7	16.5	12.4	9.9
yoY (%)	57.1	16.2	16.0	18.2	17.4	P/BV (x)	5.2	4.2	3.5	2.8	2.3
Adjusted PAT	682	840	958	1,281	1,607	EV/Sales (x)	1.5	1.3	1.2	1.0	0.9
yoY (%)	231.4	23.1	14.1	33.7	25.4	EV/ EBITDA (x)	11.0	10.0	8.7	7.3	6.2
Equity	102	102	102	102	102	RoACE (%)	21.7	22.9	22.1	23.7	25.6
EPS	6.7	8.2	9.4	12.5	15.7	RoANW (%)	33.3	27.8	22.8	25.2	25.7

Source: Company, AMSEC Research

Exhibit 3: Skipper Ltd: 3Q FY17 quarterly results

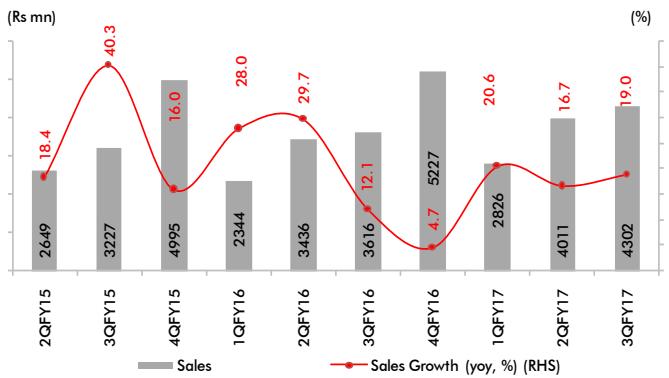
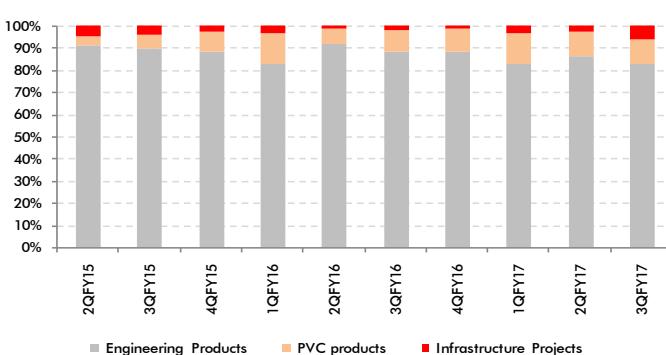
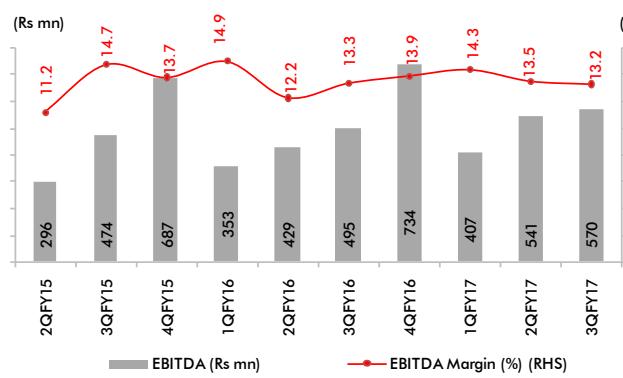
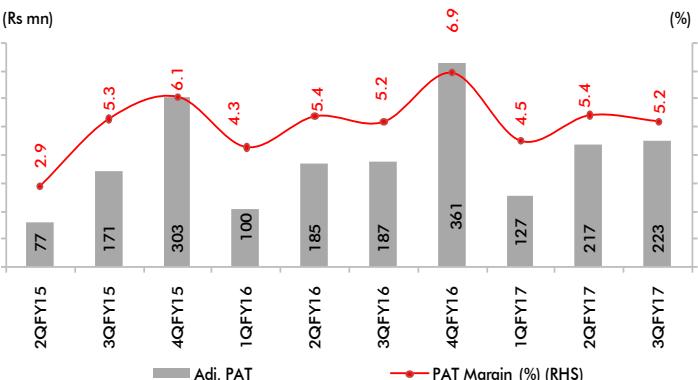
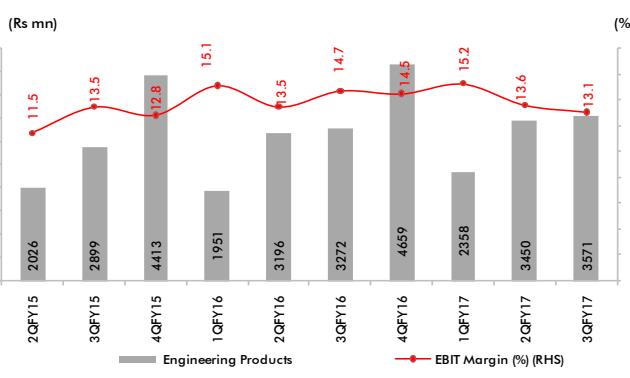
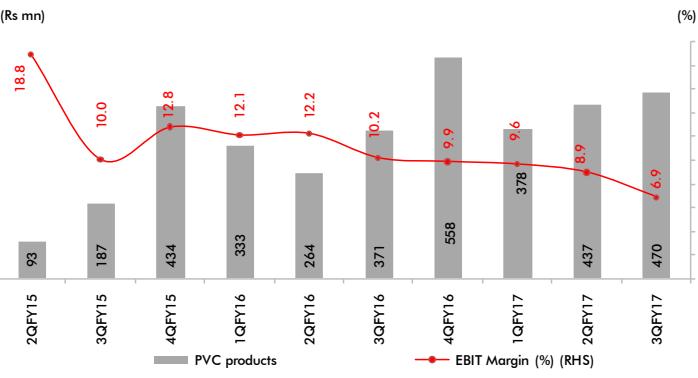
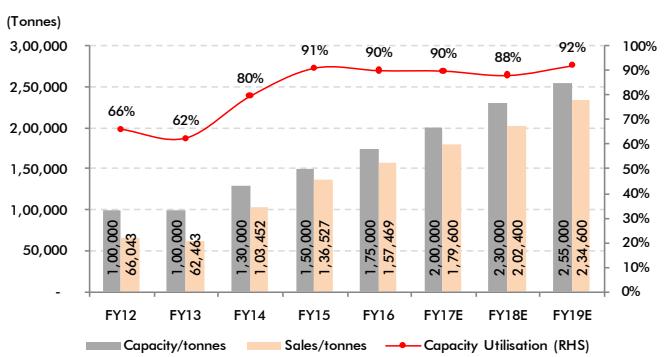
Y/E March (Rs mn)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy(%)	qoq (%)	9MFY16	9MFY17	yoy (%)
Net Sales	3,616	5,227	2,826	4,011	4,302	19.0	7.2	9,396	11,139	18.5
Other Operational Income	102	70	18	1	4	(95.7)	238.7	187	24	(87.4)
Total Sales	3,718	5,297	2,844	4,013	4,306	15.8	7.3	9,583	11,163	16.5
Stock Adjustment	28	820	(169)	(491)	(105)	(470.5)	(78.7)	(873)	(765)	(12.4)
Cons. of Raw Materials	2,294	2,593	1,940	3,019	2,947	28.5	(2.4)	6,945	7,906	13.8
Employee Cost	122	152	155	192	193	58.4	0.6	347	539	55.3
Other Expenditure	779	998	511	752	700	(10.1)	(6.9)	1,887	1,964	4.0
Total Expenditure	3,223	4,563	2,437	3,472	3,736	15.9	7.6	8,306	9,644	16.1
EBITDA	495	734	407	541	570	15.2	5.5	1,277	1,518	18.9
Add: Other Income	9	11	8	7	8	(7.1)	9.0	41	23	(43.4)
Interest	153	155	160	150	177	15.5	17.7	415	487	17.5
Depreciation	61	63	67	72	76	24.1	6.1	178	215	21.0
Excpt. Item	-	-	15	15	-	-	(100.0)	181	30	(83.7)
Profit Before Tax	289	526	203	341	325	12.6	(4.4)	907	868	(4.2)
Provision for Taxation	102	165	65	114	102	(0.2)	(10.7)	316	281	(71.1)
PAT	187	361	137	226	223	19.5	(1.3)	590	587	(0.5)
Adj Net Profit	187	361	127	217	223	19.5	3.1	472	567	20.1
Equity Capital (FV Rs 1)	102	102	102	102	102			102	102	
Basic EPS (Rs)	1.8	3.5	1.3	2.2	2.2			5.8	5.8	
Adjusted EPS (In Rs)	1.8	3.5	1.2	2.1	2.2			4.6	5.6	
EBITDA (%)	13.3	13.9	14.3	13.5	13.2	(7bp)	(23bp)	13.3	13.6	28bp
PAT (%)	5.0	6.8	4.5	5.4	5.2	16bp	(21bp)	4.9	5.1	17bp
Tax / PBT (%)	35.3	31.4	32.3	33.5	31.3			34.9	32.4	
Raw Mat. / Net Sales (%)	62.5	64.4	62.3	63.0	66.0	356bp	302bp	63.4	64.0	62bp

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 3Q FY17 Segmental finance

Y/E March(Rs mn)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy (%)	qoq (%)	9MFY16	9MFY17	yoy%
Segment Revenue										
Engineering Products	3272	4659	2358	3450	3571	9.1	3.5	8420	9379	11.4
PVC products	371	558	378	437	470	26.6	7.7	968	1286	32.8
Infrastructure Projects	74	81	108	125	265	258.3	111.2	196	498	154.2
Total Segment Revenue	3718	5297	2844	4013	4306	15.8	7.3	9583	11163	16.5
Segment Results										
Engineering Products	481	675	360	469	466	(3.1)	(0.6)	1207	1295	7.3
PVC products	38	55	36	39	32	(14.5)	(17.5)	110	108	(2.2)
Infrastructure Projects	14	4	14	17	35	151.7	114.2	38	66	73.4
Total	533	734	410	525	534	0.1	1.7	1355	1469	8.4
EBIT Margin										
Engineering Products	14.7	14.5	15.2	13.6	13.1	(165bp)	(54bp)	14.3	13.8	(52bp)
PVC products	10.2	9.9	9.6	8.9	6.9	(330bp)	(209bp)	11.4	8.4	(300bp)
Infrastructure Projects	19.1	5.5	13.4	13.2	13.4	(568bp)	19bp	19.6	13.3	(622bp)
Total EBIT Margin	14.3	13.9	14.4	13.1	12.4	(194bp)	(68bp)	14.1	13.2	(98bp)
ROCE (%)										
Engineering Products	6.8	9.9	4.8	7.1	5.8	(105bp)	(130bp)	17.1	16.0	(106bp)
PVC products	4.0	4.7	2.7	2.2	1.7	(234bp)	(52bp)	11.8	5.7	(612bp)
Infrastructure Projects	3.7	1.4	4.0	4.3	6.4	272bp	210bp	9.9	11.9	200bp
Total ROCE	6.4	8.9	4.5	6.0	5.1	(130bp)	(91bp)	16.2	13.9	(223bp)

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: Change in Estimates**

(Rs mn)	Old Estimates		Revised Estimates		% Change		Introducing
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	
Revenue	18,300	22,379	17,054	19,906	(6.8)	(11.0)	23,278
EBITDA	2,617	3,211	2,333	2,757	(10.8)	(14.1)	3,236
Adj. PAT	1,169	1,537	958	1,281	(18.0)	(16.7)	1,607
EPS (Rs)	11.4	15.0	9.4	12.5	(18.0)	(16.7)	15.7
PT (Rs)		225					236
Rating		BUY					BUY

Source: AMSEC Research

Financials (Consolidated)**(Rs mn)**

Profit & Loss Account					Cash Flow Statement					(Rs mn)	
Particulars	FY15	FY16	FY17E	FY18E	FY19E	Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net sales	12,702	14,624	17,054	19,906	23,278	PBT	1,366	1,433	1,409	1,856	2,328
Other operating income	6	257	-	-	-	Non-cash adjustments	203	189	267	315	353
Consumption of materials	8,797	9,485	11,597	13,536	15,829	Changes in working capital	187	(1,059)	(613)	(869)	(1,090)
Staff Expenses	341	500	512	577	698	Interest Paid	583	570	658	586	554
Other operating expenses	1,838	2,885	2,613	3,036	3,515	Tax Paid & Other Adj	(449)	(439)	(451)	(576)	(722)
Total Expenditure	10,976	12,870	14,721	17,149	20,042	Cashflow from operations	1,889	695	1,269	1,313	1,424
EBITDA	1,731	2,011	2,333	2,757	3,236	Capital exp. & Advances	(304)	(926)	(701)	(300)	(500)
Depreciation	220	241	300	345	373	Change in investments	-	-	-	-	-
Operating profit	1,512	1,770	2,033	2,412	2,863	Other investing cashflow	17	52	33	30	20
Other income	17	52	33	30	20	Cashflow from investing	(287)	(874)	(668)	(270)	(480)
EBIT	1,528	1,822	2,066	2,442	2,883	Issue of equity	0	-	-	-	-
Interest	583	570	658	586	554	Issue/repay debt	(566)	853	300	(200)	(200)
Exceptional items	(420)	(181)	-	-	-	Interest Paid	(583)	(570)	(658)	(586)	(554)
Profit before tax	1,366	1,433	1,409	1,856	2,328	Dividends paid	(156)	(168)	(192)	(263)	(311)
Tax	474	482	451	576	722	Other financing cashflow	-	-	-	-	-
Minority interest	-	-	-	-	-	Cashflow from financing	(1,305)	116	(549)	(1,049)	(1,066)
Reported net profit	892	951	958	1,281	1,607	Change in cash & cash	298	(63)	53	(6)	(122)
Adjusted net profit	682	840	958	1,281	1,607	Opening cash & cash eq	263	561	498	551	544
Share O/s mn	102	102	102	102	102	Closing cash & cash eq	561	498	551	544	422
EPS Rs (adjusted)	6.7	8.2	9.4	12.5	15.7	Free cash flow to firm	1,586	(230)	569	1,013	924

Balance Sheet

Particulars	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS :					
Share Capital	102	102	102	102	102
Reserves	2,936	3,713	4,479	5,497	6,792
Minority Interest	-	-	-	-	-
Total Shareholders Funds	3,039	3,815	4,582	5,599	6,895
Non-Current Liabilities					
Long term borrowings	1,707	1,983	1,983	1,983	1,983
Deferred tax liability	265	315	315	315	315
Other long term liabilities	-	-	-	-	-
Long-term provisions	2	13	13	13	13
Current Liabilities	5,625	5,776	6,602	7,080	7,453
Short term borrowings	1,724	2,419	2,719	2,519	2,319
Trade payables	2,415	2,124	2,570	3,000	3,508
Other current liabilities	1,277	1,039	1,266	1,507	1,562
Short term provisions	208	193	47	55	64
Total Equity & Liabilities	10,637	11,903	13,495	14,991	16,659
APPLICATION OF FUNDS :					
Non Current Assets					
Gross block (Total)	4,295	4,856	5,656	6,156	6,656
Less : accumulated depreciation	782	1,004	1,303	1,648	2,021
Net block (Total)	3,513	3,852	4,353	4,508	4,635
Capital work in progress	35	399	300	100	100
Noncurrent investment	-	-	-	-	-
Long term loans and advances	-	-	-	-	-
Other non-current assets	31	22	22	22	22
Current Assets	7,059	7,629	8,821	10,361	11,902
Current investment	-	-	-	-	-
Inventories	2,282	2,500	2,944	3,545	4,145
Sundry debtors	3,758	3,724	4,345	5,236	6,122
Cash and bank	561	498	551	544	422
Short loans and advances	458	907	981	1,036	1,212
Others current assets	-	-	-	-	-
Total Assets	10,637	11,903	13,495	14,991	16,659

Ratios

Particulars	FY15	FY16	FY17E	FY18E	FY19E
PER SHARE					
EPS Rs (adjusted)	6.7	8.2	9.4	12.5	15.7
CEPS Rs	8.8	10.6	12.3	15.9	19.3
Book Value Rs	29.7	37.3	44.8	54.7	67.4
VALUATION					
EV / Net Sales	1.5	1.3	1.2	1.0	0.9
EV / EBITDA	11.0	10.0	8.7	7.3	6.2
P / E Ratio	17.8	16.7	16.5	12.4	9.9
P / BV Ratio	5.2	4.2	3.5	2.8	2.3
GROWTH YOY%					
Sales Growth	22.0	15.1	16.6	16.7	16.9
EBITDA Growth	57.1	16.2	16.0	18.2	17.4
Net Profit Growth	231.4	23.1	14.1	33.7	25.4
Gross Fixed Asset Growth	8.9	13.1	16.5	8.8	8.1
PROFITABILITY (%)					
Gross Profit/ Net sales	22.5	26.3	24.8	24.9	24.9
EBITDA / Net Sales	13.6	13.5	13.7	13.9	13.9
EBIT / Net sales	11.9	12.1	11.9	12.1	12.3
NPM / Total income	5.4	5.6	5.6	6.4	6.9
Raw Material/Net Sales	69.2	63.7	68.0	68.0	68.0
Int/PBIT	38.5	32.2	32.3	24.3	19.4
RONW	33.3	27.8	22.8	25.2	25.7
ROCE	21.7	22.9	22.1	23.7	25.6
Tax / PBT	50.1	38.5	32.0	31.0	31.0
TURNOVER					
Net Working Cycle	87	100	100	102	104
Debtors Velocity (Days)	108	91	93	96	96
Inventory (Days)	76	71	73	75	75
Creditors Velocity (Days)	100	82	81	81	81
Current Ratio	2.6	3.1	3.1	3.1	3.0
Quick Ratio	1.8	2.1	2.1	2.0	2.0
LIQUIDITY					
Gross Asset Ratio	3.1	3.3	3.2	3.4	3.6
Total Asset Ratio	1.3	1.3	1.3	1.4	1.5
Net Debt-Equity Ratio	1.1	1.1	1.0	0.8	0.6
Interest Coverage (x)	2.6	3.2	3.1	4.2	5.2
PAYOUT					
Payout %	23	20	20	21	19
Dividend %	130	140	160	220	260
Yield %	0.8	0.9	0.8	1.5	2.1

Source: Company, AMSEC Research

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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