

Muted ordering, slower execution increased cost leads to tepid growth

For Q2FY19, the revenue grew 1.6% YoY to ₹ 5,239.6mn, grew 9.5% QoQ from ₹ 4787mn. EBITDA declined 43.2% YoY to ₹ 388mn, declined ~13.7% QoQ from ₹ 449.7mn EBITDA margin declined 583bps YoY to 7.4%, declined from 9.4% QoQ. PAT declined 89.3% YoY to ₹ 24.9mn, declined 44.6% QoQ from ₹ 45mn.

The margins declined due to high raw material cost impact of both steel & Zinc on the fixed price contracts primarily for Telecom orders. There was also initial undercutting in margins in Railway supplies to gain market share

Interest cost grew 28.1 % YoY to ₹ 256.5mn due to credit crunch faced by vendors resulting in reduction of trade payables (76 days) and increase in W.C debt by 53% YoY to ₹ 4.5bn The revenue from Engg Products business grew 3.1% YoY to ₹ 4,776mn YoY. Polymer business declined 16.1% YoY to ₹ 359mn while the infrastructure business grew 10.4% YoY to ₹ 104.5mn There was a notional FX loss during the quarter of ₹ 147mn primarily due to export orders from engineering products. Revenue slowdown was due to muted T&D ordering and execution leading to lower utilisation of plant capacities.

The order book as on 30 Sept 2018 was at ₹24,500mn (Fixed order contracts are 30%) with order inflow during Q2FY19 was ₹ 41bn (Q2FY18: ₹43.2bn) for engineering products supply from PGCIL, SEB's, Rail projects & for various supplies across South America & South East Asia.

View: New orders from SEB's and opportunities in rail electrification & telecom towers is expected to support growth. Increase in competition from established players has led to pricing pressure. This coupled with rising material cost leads us to lower our earnings estimates for FY19/FY20 by 22%/27%. We continue our **Sell** rating with TP ₹ 90 (P/E 10x FY20E).

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	5,240	5,156	1.6	4,787	9.5
Total Expense	4,852	4,473	8.5	4,337	11.9
EBITDA	388	683	(43.2)	450	(13.7)
Depreciation	97	121	(19.9)	115	(16.2)
EBIT	291	562	(48.2)	335	(12.9)
Other Income	3	3	3.4	3	4.0
Interest	257	200	28.1	274	(6.4)
EBT	38	365	(48.2)	64	(39.9)
Tax	13	133	(89.9)	19	(28.9)
RPAT	25	232	(89.3)	45	(44.6)
APAT	25	232	(89.3)	45	(44.6)
			(bps)		(bps)
Gross Margin (%)	30.7	32.9	(222)	32.0	(133)
EBITDA Margin (%)	7.4	13.2	(583)	9.4	(199)
NPM (%)	0.5	4.5	(403)	0.9	(46)
Tax Rate (%)	34.9	36.4	(152)	29.5	542
EBIT Margin (%)	5.6	10.9	(534)	7.0	(143)

CMP	₹ 95
Target / Downside	₹ 90 / 6%
BSE Sensex	35,145
NSE Nifty	10,583
Scrip Details	
Equity / FV	₹ 103mn / ₹ 1
Market Cap	₹ 10bn
	US\$ 134mn
52-week High/Low	₹ 292/₹ 83
Avg. Volume (no)	203,896
NSE Symbol	SKIPPER
Bloomberg Code	SKIPPER IN
Shareholding Pattern Sep'18(%)	
Promoters	71.4
MF/Banks/FIs	9.5
FII	6.6
Public / Others	12.5

Valuation (x)

	FY18A	FY19E	FY20E
P/E	8.3	11.8	10.6
EV/EBITDA	4.7	5.2	4.8
ROE (%)	20.1	12.4	12.5
RoACE (%)	15.4	11.9	11.8

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	21,076	21,674	23,711
EBITDA	3,025	2,579	2,822
PAT	1,178	828	920
EPS (₹)	11.5	8.1	9.0

VP Research: Vinod Chari

Tel: +91 22 40969779

E-mail: vinodc@dolatcapital.com

AVP Research: Jayakanth Kasthuri

Tel: +91 22 40969771

E-mail: jayakanthk@dolatcapital.com

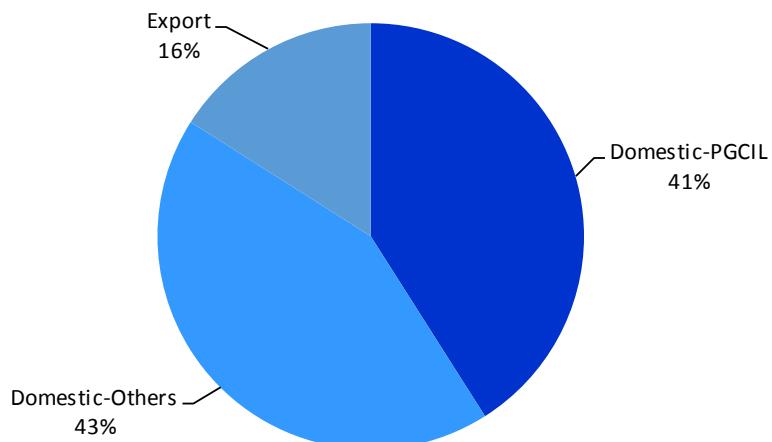

DOLAT CAPITAL

Growing opportunities in Railways, Solar and Telecom

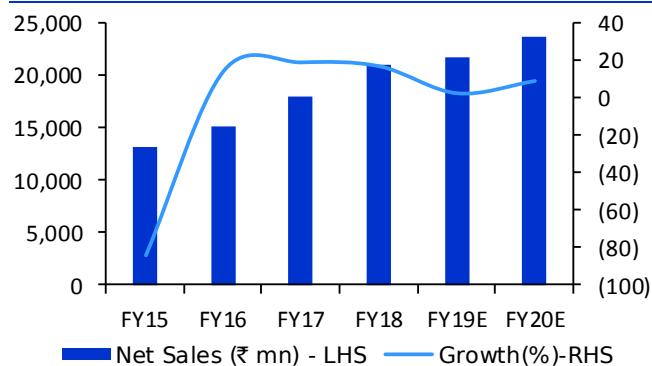
As per the management the TBCBs order is expected to pick up in Q4. 16% of order book is export oriented with execution likely to be in Q3 & Q4. Current share of Non-T&D order book at 15% and likely to be 20% by FY19-end with company's strategy to diversify its product portfolio and tap growing opportunities in Railways, Solar and Telecom (planned 100,000 additional towers worth ₹ 60bn).

Secured telecom tower supplies from LATAM. Received 200 monopoles orders worth ₹ 250mn from SEBs, LATAM and PGIL. Bid for international contracts worth ₹ 18bn. Export opportunities look prospective with INR depreciation.

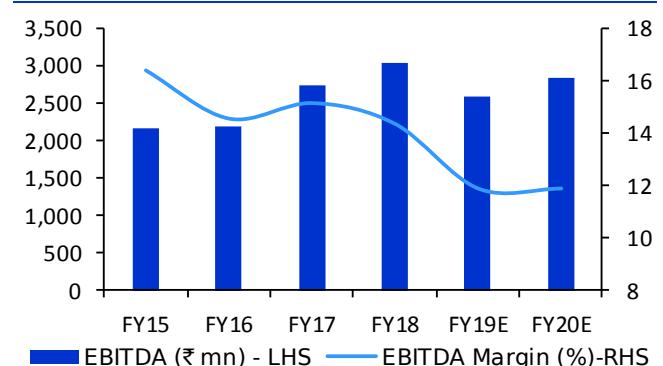
Management maintained revenue guidance of 10-15% with margins for Engg business at 12-13% for FY19. Board approved the demerger of Polymer business division to separate company Skipper Pipes Ltd which as per the management is likely to likely to create value and increase in touch points at the distribution and retail levels to increase market share. There is also shift of focus from Agriculture to Plumbing pipes which are high margins

Exhibit 1: Order Book Mix for 1HFY19


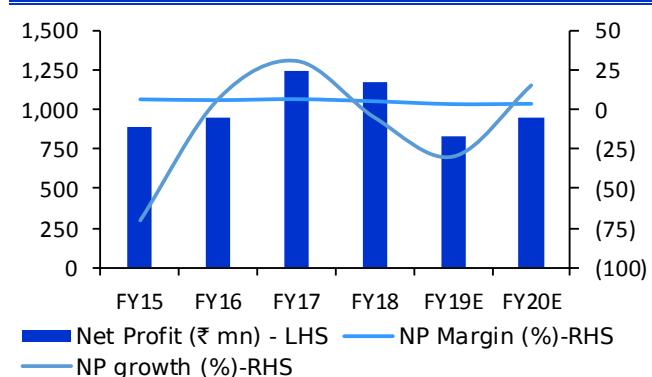
Source: DART, Company

Exhibit 2: Net Sales (₹ mn)


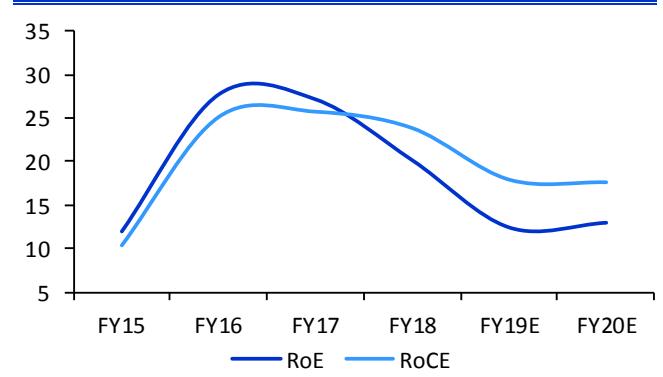
Source: DART, Company

Exhibit 3: EBITDA (₹ mn)


Source: DART, Company

Exhibit 4: Net Profit (₹ mn)


Source: DART, Company

Exhibit 5: RoE & RoCE (%)


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	17,972	21,076	21,674	23,711
Total Expense	15,250	18,051	19,095	20,890
COGS	12,234	13,585	14,522	15,887
Employees Cost	745	934	997	1,091
Other expenses	2,271	3,532	3,576	3,912
EBIDTA	2,722	3,025	2,579	2,822
Depreciation	316	459	544	630
EBIT	2,406	2,566	2,036	2,192
Interest	671	784	906	870
Other Income	32	22	70	30
Exc. / E.O. items	0	0	0	0
EBT	1,767	1,804	1,199	1,352
Tax	387	626	372	433
RPAT	1,380	1,178	828	920
APAT	1,380	1,178	828	920

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	102	103	103	103
Reserves & Surplus	5,219	6,270	6,897	7,615
Net Worth	5,321	6,373	6,999	7,718
Total Debt	4,184	4,663	4,400	5,000
Net Deferred Tax Liability	626	538	538	538
Total Capital Employed	10,131	11,574	11,938	13,256

Applications of Funds

Net Block	4,968	5,209	5,265	5,285
CWIP	144	16	16	16
Investments	164	38	88	138
Current Assets, Loans & Advances	8,632	12,173	12,389	13,990
Inventories	3,682	5,623	5,245	5,618
Receivables	3,722	5,164	5,226	5,912
Cash and Bank Balances	249	176	672	1,096
Loans and Advances	979	1,210	1,247	1,364
Less: Current Liabilities & Provisions	3,778	5,861	5,821	6,173
Payables	3,773	5,859	5,819	6,171
Other Current Liabilities	5	1	1	1
Net Current Assets	4,854	6,312	6,569	7,817
Total Assets	10,131	11,574	11,938	13,256

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	31.9	35.5	33.0	33.0
EBIDTA Margin	15.1	14.4	11.9	11.9
EBIT Margin	13.4	12.2	9.4	9.2
Tax rate	21.9	34.7	31.0	32.0
Net Profit Margin	7.7	5.6	3.8	3.9
(B) As Percentage of Net Sales (%)				
COGS	68.1	64.5	67.0	67.0
Employee	4.1	4.4	4.6	4.6
Other	12.6	16.8	16.5	16.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.8	0.7	0.6	0.6
Interest Coverage	3.6	3.3	2.2	2.5
Inventory days	75	97	88	86
Debtors days	76	89	88	91
Average Cost of Debt	15.4	17.7	20.0	18.5
Payable days	77	101	98	95
Working Capital days	99	109	111	120
FA T/O	3.6	4.0	4.1	4.5
(D) Measures of Investment				
AEPS (₹)	13.5	11.5	8.1	9.0
CEPS (₹)	16.5	16.0	13.4	15.1
DPS (₹)	1.7	1.7	1.7	1.7
Dividend Payout (%)	12.5	14.4	20.7	18.6
BVPS (₹)	51.9	62.1	68.2	75.2
RoANW (%)	30.2	20.1	12.4	12.5
RoACE (%)	19.9	15.4	11.9	11.8
RoAIC (%)	26.5	24.1	18.0	18.7
(E) Valuation Ratios				
CMP (₹)	95	95	95	95
P/E	7.1	8.3	11.8	10.6
Mcap (₹ Mn)	9,771	9,771	9,771	9,771
MCap/ Sales	0.5	0.5	0.5	0.4
EV	13,705	14,258	13,498	13,674
EV/Sales	0.8	0.7	0.6	0.6
EV/EBITDA	5.0	4.7	5.2	4.8
P/BV	1.8	1.5	1.4	1.3
Dividend Yield (%)	1.8	1.7	1.8	1.8
(F) Growth Rate (%)				
Revenue	19.3	17.3	2.8	9.4
EBITDA	24.2	11.1	(14.7)	9.4
EBIT	23.3	6.6	(20.7)	7.7
PBT	23.3	2.1	(33.5)	12.8
APAT	45.1	(14.7)	(29.7)	11.1
EPS	45.1	(14.7)	(29.7)	11.1
Cash Flow				
(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	1,788	890	2,483	1,585
CFI	(1,307)	(409)	(650)	(700)
CFF	(1,206)	(504)	(1,371)	(470)
FCFF	615	355	1,883	935
Opening Cash	498	249	176	672
Closing Cash	249	176	672	1,096
E – Estimates				

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Jun-17	Reduce	210	207
Nov-17	Sell	241	263
Feb-18	Reduce	258	244
May-18	Reduce	196	179
Aug-18	Reduce	126	120

*Price as on Recommendation Date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	VP - Head Asia Derivatives Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705
Hardik Mehta	Sales Trader	hardikm@dolatcapital.com	+9122 4096 9703

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
