

14 February 2018

Skipper

Restrained order inflow; lowering to a Hold

Despite good orders coming from the transmission and telecoms sectors, Skipper's order book was flat. We expect its strong execution in FY18 will keep sales growth robust. The flattish order book, however, would lead to modest FY19 and FY20 sales growth. With lower input costs, we believe FY19 and FY20 margins are likely to improve. We expect earnings to record a 19% CAGR over FY18-20. We believe that most of the optimism has already been factored in, resulting in limited potential from present levels. Hence, we lower our rating to a Hold and roll over our target to ₹299 (17x FY20e earnings) vs. our earlier TP of ₹271.

Flattish order book. Of the ₹26bn order book, 52% arises from PGCIL and 33% from domestic operators, with exports constituting 15%. Orders of ₹13bn were received in 9M FY18. The company's exports have been to newer areas (Botswana, Philippines; orders worth ₹1.3bn). Orders for engineering products are largely from PGCIL, Telangana, TN and to south-east Asia, with telecoms orders from Reliance Jio.

Strong sales growth, steady margins. The healthy order book assures strong sales growth. With higher steel billet prices, EBITDA/ton (now ₹10,900) would improve. Nevertheless, we have assumed flattish EBITDA/ton and expect it to continue flattish for the next two years.

Polymer products, managements expect strong growth. Management is focusing on raising capacity, from 51000 tonnes to 100,000 by FY20. It is confident of increasing volumes in PVC, CPVC and pipe fittings across India in next two years.

Earnings growth factored in; limited potential. Orders have been flattish. The OB is likely to be ~₹26bn-27bn. FY18-20 sales growth is likely to be modest. We expect margins to improve because of lower input costs. We believe that, with optimism already factored into present valuations, limited potential remains from present levels. **Risk.** Any significant delay in award of orders.

Key financials (YE Mar)	FY16	FY17	FY18e	FY19e	FY20e
Sales (₹ m)	15,062	17,030	22,689	24,748	27,986
Net profit (₹ m)	951	1,115	1,271	1,517	1,802
EPS (₹)	9.3	10.9	12.4	14.8	17.6
PE (x)	25.3	22.7	19.9	16.7	14.0
EV / EBITDA (x)	12.9	12.0	10.2	8.8	7.6
PBV (x)	6.4	5.2	4.2	3.5	2.8
RoE (%)	28.1	25.7	23.3	22.8	22.2
RoCE (%)	25.1	23.4	23.8	24.2	25.0
Dividend yield (%)	0.6	-	0.6	0.6	0.6
Net debt / equity (x)	1.1	0.8	0.9	0.6	0.4

Source: Company, Anand Rathi Research

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Rating: **Hold**

Target Price: ₹299

Share Price: ₹247

Key data	SKIPPER IN / SKIP.BO
52-week high / low	₹293 / 140
Sensex / Nifty	34156 / 10501
3-m average volume	\$0.7m
Market cap	₹26bn / \$407m
Shares outstanding	103m

Shareholding pattern (%)	Dec'17	Sep'17	Jun'17
Promoters	70.4	70.4	70.4
- of which, Pledged	-	-	-
Free float	29.6	29.6	29.6
- Foreign institutions	6.2	2.4	2.0
- Domestic institutions	9.8	11.4	11.1
- Public	13.6	15.8	16.5

Estimates revision (%)	FY18e	FY19e
Sales	12.0	4.1
EBITDA	4.4	1.4
EPS	-4.0	-6.9



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
Volumes (tonnes)					
Net revenues	15,062	17,030	22,689	24,748	27,986
Growth (%)	15.1	14.8	33.6	9.6	13.2
Material cost	9,826	11,474	16,237	17,753	20,121
Employee & other exp.	3,045	3,096	3,453	3,587	4,061
EBITDA	2,192	2,460	2,999	3,408	3,804
EBITDA margins (%)	14.6	14.4	13.2	13.8	13.6
- Depreciation	241	315	458	457	498
Other income	52	31	25	31	55
Interest expenses	570	611	649	692	642
PBT	1,432	1,565	1,917	2,289	2,718
Effective tax rate (%)	33.6	28.8	33.7	33.7	33.7
+ Associates / (minorities)	-	-	-	-	-
Net Income	951	1,115	1,271	1,517	1,802
Adjusted income	951	1,115	1,271	1,517	1,802
WANS	102	102	102	102	102
FDEPS (₹ / sh)	9.3	10.9	12.4	14.8	17.6
EPS growth (%)	101.6	17.2	14.0	19.4	18.8

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
Share capital					
Share capital	102	102	102	102	102
Net worth	3,815	4,942	6,029	7,363	8,981
Total debt	4,682	4,378	5,424	5,029	4,661
Minority interest	-	-	-	-	-
DTL / (assets)	315	391	391	391	391
Capital employed	8,811	9,712	11,844	12,783	14,034
Net tangible assets	3,840	4,634	5,189	5,246	5,263
Net Intangible assets	12	8	6	3	-0
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	399	144	150	150	150
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	7,153	8,274	10,948	12,282	13,763
Cash	498	249	261	379	866
Current liabilities	3,091	3,597	4,711	5,277	6,008
Working capital	4,062	4,677	6,237	7,004	7,755
Capital deployed	8,811	9,712	11,844	12,783	14,034
Contingent liabilities	167	178	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
PBT	1,432	1,565	1,917	2,289	2,718
+ Non-cash items	760	895	1,082	1,119	1,086
Oper. prof. before WC	2,192	2,460	2,999	3,408	3,804
- Incr. / (decr.) in WC	-1,036	-298	-1,560	-767	-751
Others incl. taxes	-576	-435	-646	-771	-916
Operating cash-flow	580	1,727	792	1,869	2,137
- Capex (tang. + intang.)	-947	-850	-1,017	-511	-511
Free cash-flow	-368	877	-225	1,358	1,626
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	160	172	184	184	184
+ Equity raised	-	-	-	-	-
+ Debt raised	-304	1,045	-394	-368	-4,661
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	-768	1,998	-816	688	-3,707
Net cash-flow	-64	-249	12	118	487

Source: Company, Anand Rathi Research

Fig 5 – Price movement



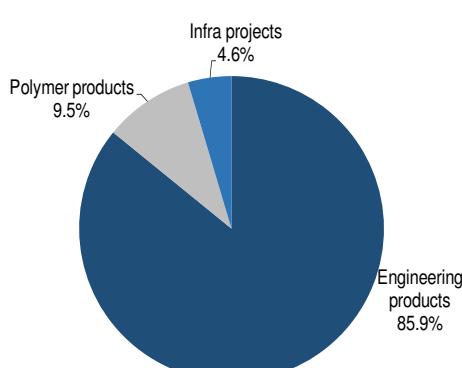
Source: Bloomberg

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
P/E (x)	25.3	22.7	19.9	16.7	14.0
EV / EBITDA (x)	12.9	12.0	10.2	8.8	7.6
EV / sales (x)	1.9	1.8	1.4	1.2	1.0
P/B (x)	6.4	5.2	4.2	3.5	2.8
RoE (%)	28.1	25.7	23.3	22.8	22.2
RoCE (%) - after tax	25.1	23.4	23.8	24.2	25.0
RoIC (%) - after tax	17.9	17.5	16.2	16.5	17.4
DPS (₹ / sh)	1.4	1.6	1.5	1.5	1.5
Dividend yield (%)	0.6	0.6	0.6	0.6	0.6
Dividend payout (%) - incl. DDT	18.1	14.2	14.5	12.1	10.2
Net debt / equity (x)	1.1	0.8	0.9	0.6	0.4
Receivables (days)	93	81	81	89	89
Inventory (days)	62	80	79	79	79
Payables (days)	51	62	63	64	64
CFO:PAT%	61.0	154.9	62.4	123.2	118.6

Source: Company, Anand Rathi Research

Fig 6 – Q3 FY18 revenue break-up



Source: Company

Result Highlights

Fig 7 – Segment-wise highlights

(YE: Mar)	Q3 FY17	Q3 FY18	% Y/Y	9M FY17	9M FY18	% Y/Y
Revenue (₹ m)						
Engineering products	3,523	4,864	38.1	9,237	12,859	39.2
Polymer products	466	540	15.9	1,269	1,352	6.6
Infrastructure projects	263	261	-0.7	497	599	20.5
Total	4,251	5,665	33.2	11,002	14,809	34.6
EBITDA margins (%)						
Engineering products	14.1	13.5	-	14.5	13.5	-
Polymer products	10.9	9.4	-	10.6	9.3	-
Infrastructure projects	14.0	12.3	-	13.8	12.9	-

Source: Company

Fig 8 – Quarterly trend

(₹ m)	FY17				FY18				Y/Y (%)	9M FY17	9M FY18	Y/Y (%)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3					
Sales	2,842	4,013	4,251	5,837	3,988	5,156	5,664	33.2	11,106	14,809	33.3	
Raw material cost	1,771	2,528	2,843	3,767	2,470	3,458	3,902	37.3	7,141	9,830	37.6	
Employee cost	154	192	194	192	210	251	236	21.6	540	697	29.2	
Other expense	524	752	632	966	792	765	786	24.4	1,908	2,342	22.7	
% of sales												
Raw material cost	62.3	63.0	66.9	64.5	61.9	67.1	68.9		64.3	66.4		
Employee cost	5.4	4.8	4.6	3.3	5.3	4.9	4.2		4.9	4.7		
Other expenses	18.4	18.8	14.9	16.5	19.9	14.8	13.9		17.2	15.8		
EBITDA margins	13.8	13.5	13.7	15.6	12.9	13.2	13.1		13.7	13.1		
Interest cost (₹ m)	179	150	190	124	169	200	176	-7.3	519	545	5.0	
Depreciation (₹ m)	68	72	76	100	107	121	118	54.5	215	346	60.5	
Tax rate (%)	32.0	35.0	31.7	24.2	35.5	36.4	35.1		32.9	35.6		
PAT (₹ m)	105	226	222	528	160	232	292	31.5	661	684	3.6	

Source: Company

Valuation

The stock now trades at 16.7x FY19e and 14x FY20e earnings. Order inflow has been flatish. The order book is likely to hold within the range of ₹26bn-27bn. Sales growth in FY18-20 is likely to be modest. With lower input costs, we expect margins to improve and earnings to register a 19% CAGR over FY18-20.

We believe, however, that the optimism has already been factored into present valuations, with only restricted potential available from current levels. Hence, we lower our rating to a Hold and roll over our target price to ₹299 (17x FY20e earnings) vs. our earlier TP of ₹271.

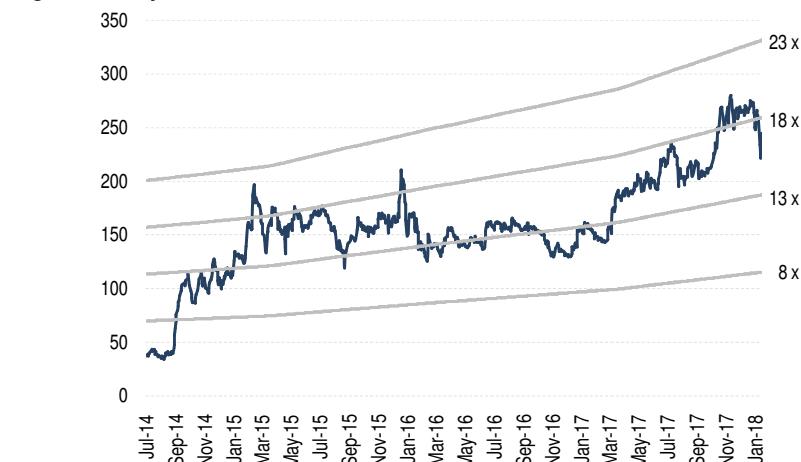
Change in estimates

Fig 9 – Change in estimates

(₹ m)	Original Estimates		Revised Estimates		Change (%)	
	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
Revenue	20,254	23,775	22,689	24,748	12.0	4.1
EBITDA	2,871	3,361	2,999	3,408	4.4	1.4
EPS (₹)	12.9	15.9	12.4	14.8	-4.0	-6.9

Source:

Fig 10 – One-year-forward PER



Source: Company, Anand Rathi Research

Key risks

- Any significant delay in the awarding of orders.

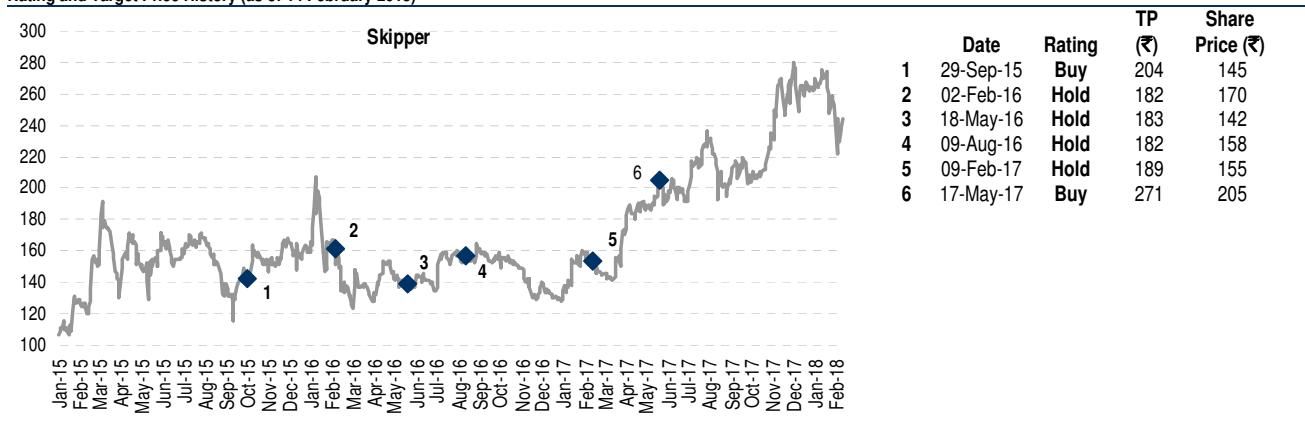
Appendix

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