

Skipper

Accumulate

| | |
|-----------------|----------|
| CMP | ₹ 139 |
| Target / Upside | ₹ 145/5% |
| BSE Sensex | 26,818 |
| NSE Nifty | 8,296 |

Scrip Details

| | |
|------------------|---------------|
| Equity / FV | ₹ 102mn/₹ 1/- |
| Market Cap | ₹ 14bn |
| | USD 212mn |
| 52-week High/Low | ₹ 220/122 |
| Avg. Volume (no) | 143,147 |
| NSE Symbol | SKIPPER |
| Bloomberg Code | SKIPPER IN |

Shareholding Pattern Sept'16(%)

| | |
|-----------------|------|
| Promoters | 72.4 |
| MF/Banks/FIs | 3.1 |
| FII | 1.5 |
| Public / Others | 23.0 |

Valuation (x)

| | FY16 | FY17E | FY18E |
|-----------|------|-------|-------|
| P/E | 14.9 | 15.5 | 13.2 |
| EV/EBITDA | 8.2 | 7.7 | 6.7 |
| ROE | 27.8 | 21.9 | 21.6 |
| ROCE | 25.6 | 22.2 | 22.0 |

Estimates (₹ mn)

| | FY16 | FY17E | FY18E |
|-----------|--------|--------|--------|
| Net Sales | 15,062 | 17,527 | 20,162 |
| EBITDA | 2,192 | 2,331 | 2,682 |
| PAT | 951 | 913 | 1,074 |
| EPS | 9.3 | 8.9 | 10.5 |

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Overall Q2FY17 performance of Skipper limited remain below our estimates. Sales remain in line but adjusted PAT remain lower than estimate by 11%. However, order inflow remained muted due to delay in ordering by Power Grid Corporation (PGCIL) and subdued inflow from overseas. We expect the book to bill ratio of skipper is unlikely to improve in the near term. We maintain 16% CAGR in sales over FY16-FY18E. We reduced our PAT CAGR from 11% to 6% owing to lower margin in the PVC business. We maintain Accumulate at 145 (7xFY18EV/EBITDA).

Muted order inflow in Engineering products

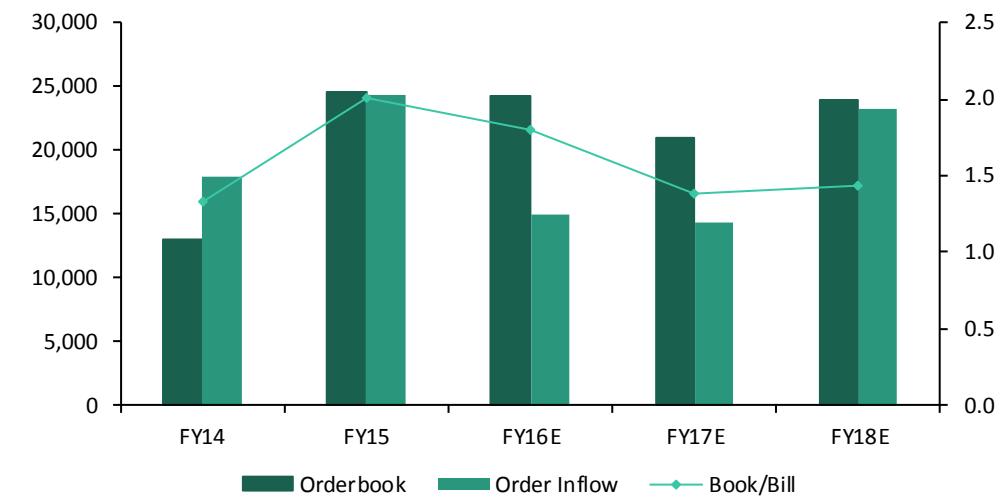
Sales grew 17% YoY to ₹ 4bn. PVC (66% YoY) and Infrastructure (218% on a low base) remain the key driver for growth. Engineering (Transmission) product sales grew 3% YoY. Sales remain 3% Lower than estimate. EBITDA dipped 9% YoY, largely due to dip in margin in Engineering products. Adjusting to the Forward contract revenue EBITDA was up 26% YoY. (Adjusted EBITDA remain 26% Lower than estimates) PAT reported at ₹ 226mn. Adjusted PAT was up 15% YoY. (Adjusted PAT remain 11% lower than estimate. Order inflow remain line with sales and order book stood at ₹ 23bn.

Recommend Accumulate with TP of ₹ 145

Proven execution capabilities, strategic locational advantage backed by a strong balance sheet gives us comfort in Skipper. However, we remain concerned on the near-term growth of the engineering products business of the company (88% of Sales), due to (1) slow ordering by PGCIL and other SEBs in the domestic market and due to (2) yet-to-mature presence of the company in other global markets. Therefore, we see the current valuation fully factors the near to medium term potentials of the company. We recommend Accumulate with TP 145 7xEV/EBITDA (13% discount to our multiple for KEC International).

Q2FY17 Result (₹ Mn)

| Particulars | Q2FY17 | Q1FY16 | Q2FY16 | QoQ(%) | YoY(%) |
|-----------------------|--------|--------|--------|--------|--------|
| Net Sales | 4,027 | 2,859 | 3,680 | 40.9 | 9.4 |
| Expenditure | 2,720 | 1,926 | 2,413 | 41.2 | 12.7 |
| Other Expenditure | 752 | 511 | 0 | 47.2 | NA |
| Operation Profit | 555 | 422 | 1,267 | 31.4 | (56.2) |
| Other Income | 7 | 8 | 26 | (5.8) | (71.9) |
| Interest | 150 | 160 | 114 | (6.2) | 31.5 |
| Depreciation | 72 | 67 | 58 | 6.3 | 24.0 |
| PBT | 341 | 203 | 1,121 | 68.1 | (69.6) |
| Tax | 114 | 65 | 161 | 74.6 | (29.1) |
| Net Profit | 226 | 137 | 960 | 65.1 | (76.4) |
| Adj Profit | 226 | 137 | 303 | 65.1 | (25.3) |
| Gross Margin (%) | 37.2 | 38.1 | 37.8 | | |
| Staff Cost (%) | 3.8 | 4.3 | 2.4 | | |
| Other Expenditure (%) | 18.7 | 17.9 | 0.0 | | |
| OPM(%) | 13.8 | 14.8 | 34.4 | | |
| Tax Rate (%) | 33.5 | 32.3 | 14.4 | | |
| NPM (%) | 5.6 | 4.8 | 26.1 | | |

Exhibit 1: Order book, order flow and book to bill ratio


Source: Dolat Research, Company

Other highlights of conference Call

- Good monsoon led to rise in inventory
- Current order book stands at ₹ 23bn. The Inflow remains in line with sales during the quarter
- Currently 7bn orders are in pipeline. This is largely from the Raipur-Pugalur line (being re tendered) of Powergrid and the north eastern transmission line projects of Powergrid. Company expects it will remain the favorable vendor for Powergrid as the product price would be ₹ 2000 to ₹ 3000/ton (₹ 4500/ton cheaper when the Guwahati (adding 50000tons) plant is commissioned) cheaper than the other central india players.
- Management guided 10-12% rise in volume growth in Engineering Products 50% growth in Polymer business
- Starting HDPE pipe manufacturing in Hyderabad (That has business opportunity of ₹ 30bn)
- The Argentina TSO has decided to not to expand the contract that ended in September. Co is looking to work for other players. ₹ 450 cr. Export order ₹ 600 crore.
- The demonetization will have positive impact on the pipe business as the business would shift from the unorganized players.
- EBITDA in PVC is 10.5%. The contraction is due to marketing push.

Income Statement

| Particulars | Mar15 | Mar16 | Mar17E | Mar18E |
|--------------------------|---------------|---------------|---------------|---------------|
| Net Sales | 13,128 | 15,062 | 17,527 | 20,162 |
| Total Income | 13,128 | 15,062 | 17,527 | 20,162 |
| Total Expenditure | 10,976 | 12,870 | 15,196 | 17,481 |
| Cost of materials cons | 8,797 | 9,485 | 11,042 | 12,702 |
| Employee Benefits Exp | 341 | 500 | 789 | 847 |
| Other Expenses | 1,838 | 2,885 | 3,365 | 3,932 |
| Other Income | 17 | 52 | 84 | 84 |
| EBIDTA (Excl. OI) | 2,151 | 2,192 | 2,331 | 2,682 |
| EBIDTA (Incl. OI) | 2,168 | 2,244 | 2,415 | 2,766 |
| Interest | 583 | 570 | 765 | 885 |
| Depreciation | 220 | 241 | 287 | 301 |
| PBT & EO Items | 1,365 | 1,433 | 1,363 | 1,580 |
| Profit Before Tax | 1,365 | 1,433 | 1,363 | 1,580 |
| Tax | 474 | 482 | 450 | 505 |
| Net Profit | 891 | 951 | 913 | 1,074 |

Balance Sheet

| Particulars | Mar15 | Mar16 | Mar17E | Mar18E |
|--|--------------|--------------|---------------|---------------|
| Sources of Funds | | | | |
| Equity Capital | 102 | 102 | 102 | 102 |
| Other Reserves | 2,936 | 3,713 | 4,433 | 5,303 |
| Net Worth | 3,039 | 3,815 | 4,536 | 5,405 |
| Secured Loans | 1,288 | 1,983 | 2,000 | 2,100 |
| Unsecured Loans | 2,540 | 2,419 | 3,800 | 3,900 |
| Loan Funds | 3,829 | 4,403 | 5,800 | 6,000 |
| Deferred Tax Liability | 265 | 315 | 315 | 315 |
| Total Capital Employed | 7,132 | 8,533 | 10,650 | 11,720 |
| Applications of Funds | | | | |
| Gross Block | 3,513 | 4,182 | 4,115 | 4,114 |
| Net Block | 3,513 | 4,182 | 4,115 | 4,114 |
| Capital Work in Progress | 35 | 70 | 70 | 70 |
| Current Assets, Loans & Advances | | | | |
| Inventories | 2,282 | 2,500 | 4,322 | 5,248 |
| Sundry Debtors | 3,758 | 3,724 | 4,322 | 4,972 |
| Cash and Bank Balance | 561 | 498 | 2,048 | 2,178 |
| Loans and Advances | 488 | 929 | 720 | 829 |
| <i>sub total</i> | 7,090 | 7,651 | 11,412 | 13,226 |
| Less : Current Liabilities & Provisions | | | | |
| Current Liabilities | 3,295 | 3,163 | 4,706 | 5,413 |
| Provisions | 210 | 207 | 241 | 277 |
| <i>sub total</i> | 3,505 | 3,370 | 4,946 | 5,690 |
| Net Current Assets | 3,585 | 4,281 | 6,466 | 7,536 |
| Total Assets | 7,132 | 8,533 | 10,650 | 11,720 |

E – Estimates

Cash Flow

| Particulars | Mar15 | Mar16 | Mar17E | Mar18E |
|------------------------------------|-----------------|--------------|--------------|--------------|
| Profit before tax | 1,365 | 1,433 | 1,363 | 1,580 |
| Depreciation & w.o. | 220 | 241 | 287 | 301 |
| Net Interest Exp | 583 | 570 | 765 | 885 |
| Direct taxes paid | (474) | (482) | (450) | (505) |
| Change in Working Capital | 12,361 | (759) | (635) | (940) |
| Other | (9,553) | (95) | (186) | (192) |
| (A) CF from Opt. Activities | 4,501 | 908 | 1,145 | 1,128 |
| Capex | 10,152 | (704) | 67 | 1 |
| Free Cash Flow | 14,654 | 204 | 1,212 | 1,129 |
| (B) CF from Inv. Activities | 10,152 | (704) | 67 | 1 |
| Inc./ (Dec.) in Debt | (14,266) | 574 | 1,397 | 200 |
| Interest exp net | (583) | (570) | (765) | (885) |
| Dividend Paid (Incl. Tax) | 0 | 0 | 0 | 0 |
| (C) CF from Financing | (15,261) | 4 | 632 | (685) |
| Net Change in Cash | (607) | 208 | 1,844 | 444 |
| Opening Cash balances | 1,440 | 561 | 498 | 2,048 |
| Closing Cash balances | 561 | 498 | 2,048 | 2,178 |

Important Ratios

| Particulars | Mar15 | Mar16 | Mar17E | Mar18E |
|---|--------|--------|--------|--------|
| (A) Measures of Performance (%) | | | | |
| EBIDTA Margin (excl. O.I.) | 16.4 | 14.6 | 13.3 | 13.3 |
| Interest / Sales | 4.4 | 3.8 | 4.4 | 4.4 |
| Tax/PBT | 34.7 | 33.6 | 33.0 | 32.0 |
| Net Profit Margin | 6.8 | 6.3 | 5.2 | 5.3 |
| (B) As Percentage of Net Sales | | | | |
| Employee Benefits Expense | 2.6 | 3.3 | 4.5 | 4.2 |
| Other Expenses | 14.0 | 19.2 | 19.2 | 19.5 |
| (C) Measures of Financial Status | | | | |
| Debt / Equity (x) | 1.3 | 1.2 | 1.3 | 1.1 |
| Interest Coverage (x) | 3.7 | 3.9 | 3.2 | 3.1 |
| Average Cost Of Debt (%) | 5.3 | 13.9 | 15.0 | 15.0 |
| Debtors Period (days) | 104 | 90 | 90 | 90 |
| Closing stock (days) | 63.5 | 60.6 | 90.0 | 95.0 |
| Inventory Turn. Ratio (x) | 5.8 | 6.0 | 4.1 | 3.8 |
| WC Turnover (x) | 3.7 | 3.5 | 2.7 | 2.7 |
| Non Cash WC (₹ Mn) | 3,024 | 3,783 | 4,417 | 5,358 |
| (D) Measures of Investment | | | | |
| EPS (₹) (excl EO) | 8.7 | 9.3 | 8.9 | 10.5 |
| CEPS (₹) | 10.9 | 11.7 | 11.7 | 13.4 |
| Profit Ploughback (%) | 100.0 | 100.0 | 100.0 | 100.0 |
| Book Value (₹) | 29.7 | 37.3 | 44.3 | 52.8 |
| RoANW (%) | 11.9 | 27.8 | 21.9 | 21.6 |
| RoACE (%) | 10.3 | 25.6 | 22.2 | 22.0 |
| RoAIC (%) | 10.9 | 27.4 | 25.6 | 27.2 |
| (E) Valuation Ratios | | | | |
| CMP (₹) | 139 | 139 | 139 | 139 |
| P/E (x) | 15.9 | 14.9 | 15.5 | 13.2 |
| Market Cap. (₹ Mn) | 14,179 | 14,181 | 14,181 | 14,181 |
| MCap/ Sales (x) | 1.1 | 0.9 | 0.8 | 0.7 |
| EV (₹ Mn) | 17,446 | 18,086 | 17,933 | 18,003 |
| EV/Sales (x) | 1.3 | 1.2 | 1.0 | 0.9 |
| EV/EBDITA (x) | 8.1 | 8.2 | 7.7 | 6.7 |
| P/BV (x) | 4.7 | 3.7 | 3.1 | 2.6 |

E – Estimates

Stock price return objective (12 Months)

| | |
|-------------------|------------|
| Buy | > 15% |
| Accumulate | 5 to 15% |
| Reduce | (-5) to 5% |
| Sell | < -5% |

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