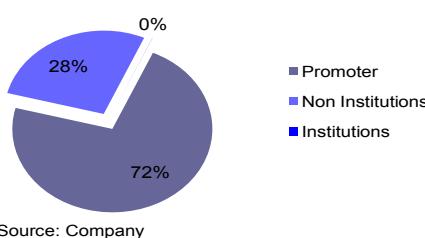


CMP INR 155
Target INR 204
Result Update - BUY
Key Share Data

Face Value (INR)	1.0
Equity Capital (INR Mn)	102.3
Market Cap (INR Mn)	15,807.8
52 Week High/Low (INR)	200/93
6 months Avg. Daily Volume (BSE)	25,244
BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPER IN

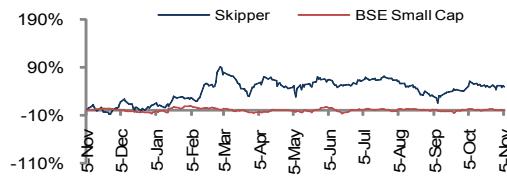
Shareholding Pattern (as on 30th Sept 2015)

Key Financials (INR Million)

Particulars	FY14	FY15	FY16E	FY17E
Net Sales	10,415.1	13,127.8	16,227.5	19,902.3
Growth (%)	15.7%	26.0%	23.6%	22.6%
EBITDA	1,101.2	2,150.6	2,378.6	2,863.2
PAT	269.1	890.7	1,071.1	1,390.6
Growth (%)	43.8%	231.0%	20.3%	29.8%
EPS (INR)	2.7	8.7	10.5	13.6
BVPS (INR)	23.4	29.7	38.6	50.7

Key Financials Ratios

Particulars	FY14	FY15	FY16E	FY17E
P/E (x)	13.5	17.3	14.8	11.4
P/BVPS (x)	1.6	5.1	4.0	3.0
Mcap/Sales (x)	0.3	1.2	1.0	0.8
EV/EBITDA (x)	7.0	8.7	8.3	6.9
ROCE (%)	11.4%	19.9%	19.2%	20.1%
ROE (%)	7.7%	26.1%	29.5%	28.0%
EBITDA Mar (%)	10.6%	16.9%	15.1%	14.8%
PAT Mar (%)	2.6%	6.8%	6.6%	7.0%
Debt - Equity (x)	1.8	1.1	1.0	0.8

Source: Company, SKP Research

1 Yr price performance Skipper vis-à-vis BSE Small Cap

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Company Background

Skipper Limited, flagship company of Kolkata based S K Bansal Group is India's third largest transmission tower manufacturing company (after KEC and Kalpataru) and tenth largest in the world, having a production capacity of 1,75,000 MTPA. It also manufactures PVC pipes for water transportation in which it has aggressive growth plans. Skipper has three manufacturing facilities across India.

Investment Rationale
Top-line to grow at a CAGR of ~23% over FY15-17E

- During Q2FY16, Skipper reported total income of Rs 3,680.5 mn, registering growth of ~19.9% on y-o-y basis whereas sales grew by ~23.4% during H1FY16, backed by healthy demand from PGCIL and export market coupled with higher contribution from PVC pipe business. Going forward, we expect Skipper sales to grow at a CAGR of ~23% during FY15-17E on the back of robust demand from PGCIL and 3x capacity addition in the PVC pipe business, resulting into better capacity utilization and higher sales volume.

Engineering Product Business: Strong order book; expansion underway to encash substantial growth opportunity

- Gol plans to spend Rs.2.6 Trillion on power Transmission & Distribution (T&D) during the 13th Five Year Plan. Apart from Power Grid (PGCIL), which plans to place orders worth Rs 220 bn, T&D spending would be driven by projects like separate feeder for agriculture, green corridor and renewed capex by State Electricity Boards (SEBs) after a long hiatus. To capitalize on expected increase in order inflow from PGCIL, Skipper is increasing its existing capacity of transmission line towers from ~1,75,000 MTPA to ~2,00,000 MTPA by FY17. Its current order book stands at Rs 22 bn which is ~2xFY15 sales of its engineering business.

PVC Pipes Business to grow exponentially, backed by 3x capacity addition

- Skipper is in the midst of a capacity expansion plan, at an investment of ~Rs 400 mn, funded through a mix of debt and internal accruals. Post expansion, capacity of PVC pipes will increase from ~22,500 MTPA (including captive unit) to ~40,500 MTPA by H2FY16, registering an exponential sales growth of ~81% CAGR over the FY15-17E, backed by persisted demand from the replacement market and a gradual demand shift to branded pipes.

Margins to stabilize at ~14-15%+ with better operating leverage

- EBIDTA margins have improved significantly from 9.5% in FY13 to 16.9% during FY15 on account of better operating efficiencies, higher capacity utilization and steep fall in raw materials prices. During Q2FY16, EBITDA margins improved by 164bps q-o-q to 16.6% but contracted by 678 bps y-o-y. We believe, Skipper is likely to maintain its margin supremacy in transmission towers business over its peers backed by its scale & size, integrated operations, logistic advantage, etc.
- Post expansion of PVC pipe segment, Skipper will become a pan India player, which would lead to higher overhead spending, thereby restricting EBITDA margins at level of ~14-15% in the near term.

Deleveraging Balance Sheet

- Over the last few years, Skipper has reduced its net debt from Rs 3.8 bn in FY13 to Rs 2.9 bn in FY15, bringing down D/E ratio significantly to 1.1x in FY15 from 1.9x in FY13. In spite of an expansion plan, we do not expect any substantial increase in long term debt.

Valuation

- With higher order inflow from PCGIL, strong entry barriers, efficient working capital management, increasing PVC Pipes capacity through asset light model and enhancing return ratios, augurs well for Skipper. We have valued the stock on the basis of P/E of 15x of FY17E EPS and recommend a BUY with a target price of Rs 204/- (~32% upside) in 18 months.

Exhibit: Q2FY16 Result Review
Figs. in INR Million

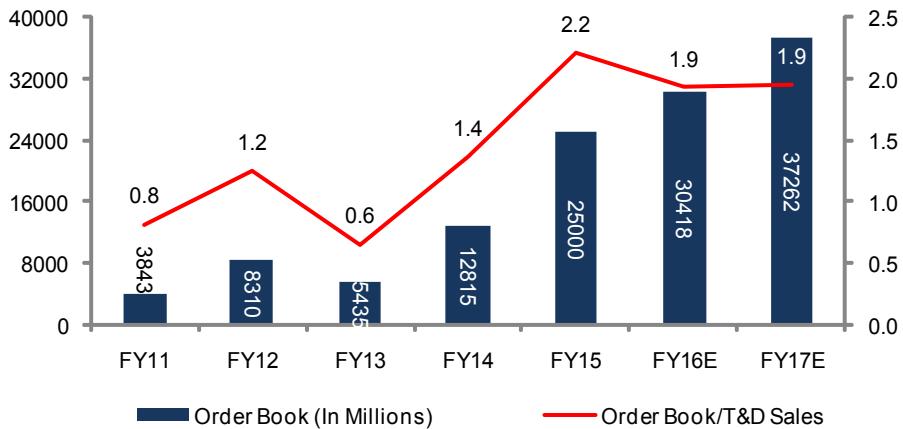
Particulars	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %	6MFY16	6MFY15	YoY %
Net Sales	3,436.3	2,648.7	29.7%	2,344.2	46.6%	5,780.5	4,480.8	29.0%
Income from Forward Contracts	181.4	420.1				181.4	420.1	
Other Operating Income	62.8	0.1		22.4	180.7%	85.2	0.3	
Total Income	3,680.5	3,068.9	19.9%	2,366.6	55.5%	6,047.0	4,901.2	23.4%
Expenditure	3,070.5	2,352.3	30.5%	2,013.1	52.5%	5,083.6	3,910.6	30.0%
Material Consumed	2,486.4	1,853.1	34.2%	2,164.3	14.9%	4,650.8	3,553.2	30.9%
(as a % of Total Income)	67.6%	60.4%		91.45%		76.9%	72.5%	
Increase/Decrease in stock in trade	(196.8)	(71.3)	175.9%	(704.4)	-72.1%	(901.2)	(605.8)	48.8%
(as a % of Total Income)	-5.3%	-2.3%		-29.8%		-14.9%	-12.4%	
Employees Cost	123.6	89.4	38.3%	102.0	21.2%	225.6	160.8	40.3%
(as a % of Total Income)	3.4%	2.9%		4.3%		3.7%	3.3%	
Other Expenses	657.2	481.1	36.6%	451.3	45.6%	1,108.4	802.5	38.1%
(as a % of Total Income)	17.9%	15.7%		19.1%		18.3%	16.4%	
EBITDA	610.0	716.7	-14.9%	353.4	72.6%	963.4	990.6	-2.7%
EBITDA Margin (%)	16.6%	23.4%	(678)Bps	14.9%	164 Bps	15.9%	20.2%	(428)Bps
Depreciation	57.8	50.5	14.4%	58.8	-1.7%	116.6	104.9	11.2%
EBIT	552.2	666.1	-17.1%	294.6	87.4%	846.8	885.7	-4.4%
Other Income	26.0	0.9	2816.3%	6.1	324.1%	32.1	8.8	263.7%
Interest Expense	114.3	129.0	-11.4%	147.3	-22.4%	261.5	255.7	2.3%
Profit Before Tax	463.9	538.0	-13.8%	153.5	202.2%	617.4	638.8	-3.3%
Income Tax	161.0	185.1	-13.0%	53.3	202.2%	214.3	220.3	-2.7%
Effective Tax Rate (%)	34.7%	34.4%		-	34.7%	34.5%		-
Profit After Tax (PAT)	302.9	352.9	-14.2%	100.2	202.3%	403.2	418.5	-3.7%
PAT Margins (%)	8.23%	11.50%	(327)Bps	4.23%	400 Bps	6.67%	8.54%	(187)Bps
Diluted EPS	2.96	3.45	-14.2%	0.98	202.3%	3.94	4.1	-3.7%

Source: Company Data, SKP Research

Order Book is expected to grow at a CAGR of ~22.1% over FY15-17E

Exhibit: Trends in Orderbook

PGCIL contributes 47% of the total order book and we expect PGCIL order book to grow at a CAGR of ~34% over the next two years.

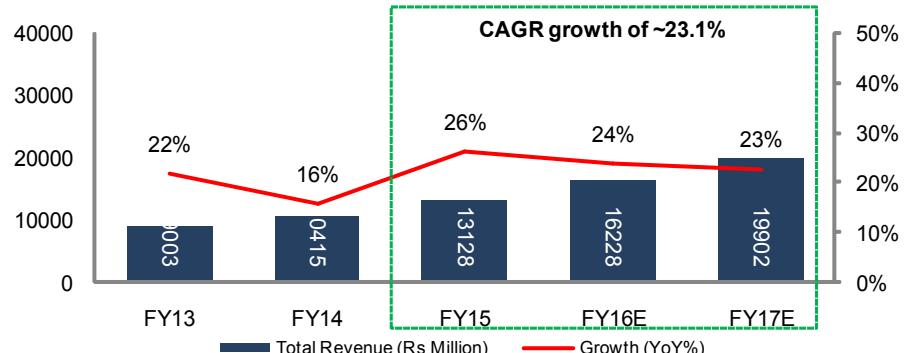


Source: Company, SKP Research

Top-line expected to grow at a CAGR of 23% over FY15-17E

Exhibit: Total Revenue & Revenue Growth (%)

Net Sales is expected to grow at a CAGR 23% percent to Rs 19902.3 million over FY15-17E, backed by higher capacity utilization and improvement in operating margins.

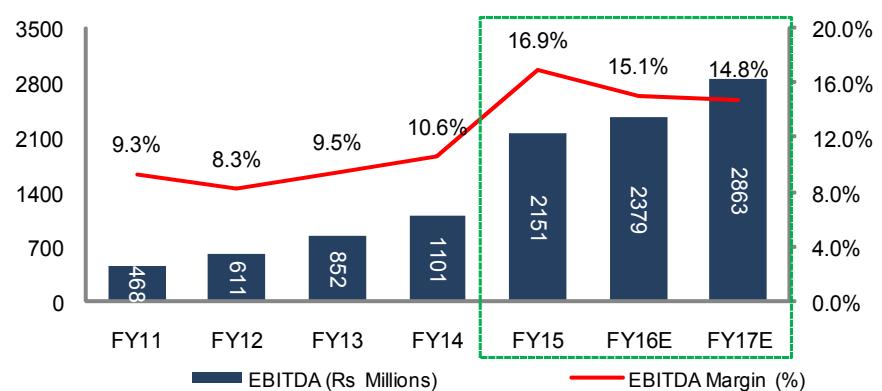


Source: SKP Research

Margins to stabilize at ~14-15%+ with better operating leverage

Exhibit: EBITDA & EBITDA Margin

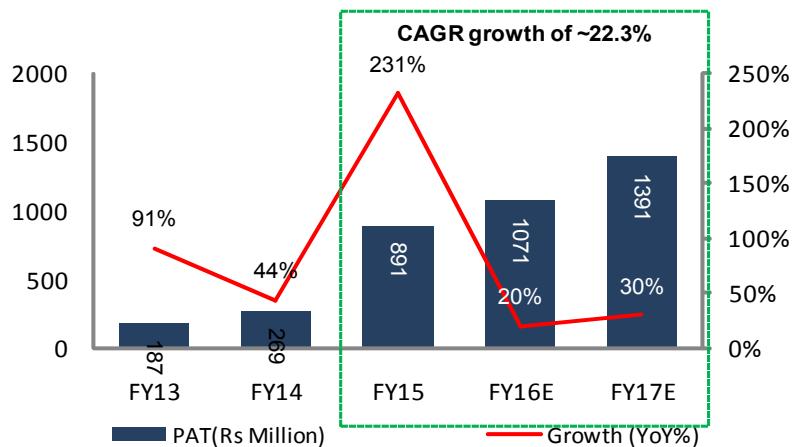
EBITDA is expected to grow at a CAGR 15.4% percent to Rs 2863.2 million over FY15-17E



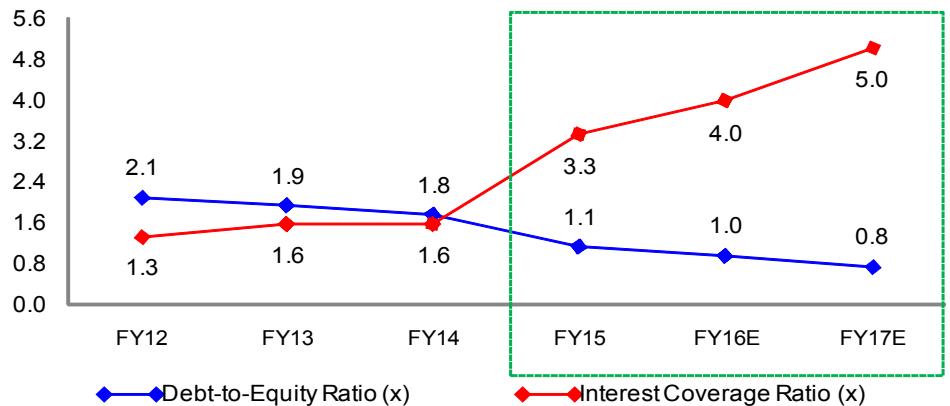
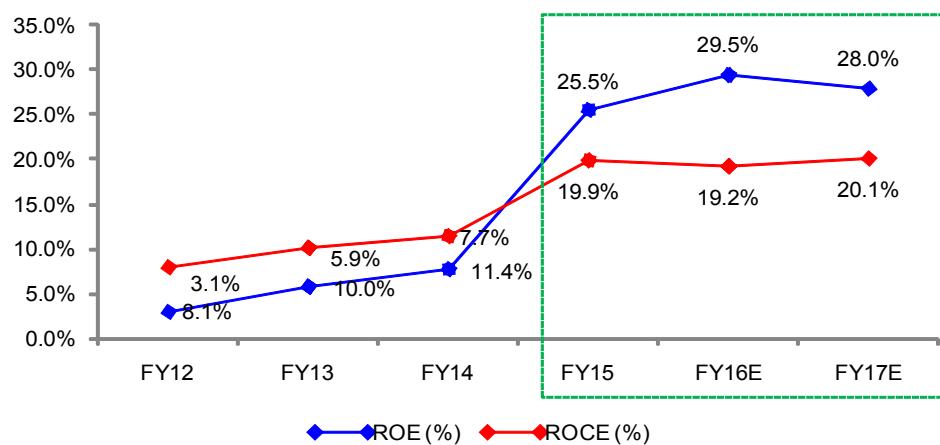
Source: SKP Research

PAT expected to grow at a CAGR of 22% over FY15-17E
Exhibit: PAT And PAT Growth

PAT is expected to grow at a CAGR 25% percent to Rs 1390.6 million over FY15-17E


Source: SKP Research
D/E ratio improves to 0.8x in FY17E from a high of 1.9x in FY13
Exhibit: D/E Ratio and Interest Coverage Ratio

In Q2FY16, CARE rating has upgraded the credit rating of the company to A+ which will result in lower interest cost and augmented its ability to issue commercial paper which will further reduce its interest burden.


Source: SKP Research
ROE to improve from 8% in FY14 to 30% by FY17E
Exhibit: Return Ratio

Source: SKP Research

Key Concerns

- ▶ **Slowdown in order intake & execution:** Over the last couple of years, Skipper reported healthy top-line on the back of order pick-up from PGCIL and export market. However, going forward, any slowdown in transmission capex and lower than expected execution for the export market could adversely impact order book intake and could also impact our estimates for the engineering product segment, thereby, adversely affecting the overall performance.
- ▶ **Delay in capacity addition for PVC segment:** Skipper has an aggressive capacity expansion plan for the PVC business which will bring new execution and competition challenges. If the company resorts to aggressive pricing on its way to become a national player than it would be a margin dilutive proposition for Skipper.
- ▶ **Volatile Dollar Rupee Rate:** Export market contributes 50% of total order book. Any unfavorable USD-INR movement may have negative impact on the margins and profitability.

Valuations

- ▶ With Gol's thrust on improving T&D infrastructure (capex of Rs 2.6 tn over the 13th five year plan) in the country coupled with higher order inflow from PCGIL, strong entry barriers, efficient working capital management, prudent approach to reinforce orders, increasing PVC capacity through asset light model and enhancing return ratios augurs well for the company.
- ▶ We have valued the stock on the basis of P/E of 15.0x of FY17E EPS and recommend a BUY on Skipper with a target price of Rs 204/- (~32% upside) in 18 months.

Exhibit: Income Statement
Figures in INR Million

Particulars	FY14	FY15	FY16E	FY17E
Total Income	10,415.1	13,127.8	16,227.5	19,902.3
Growth (%)	15.7%	26.0%	23.6%	22.6%
Expenditure	9,313.8	10,977.2	13,848.9	17,039.1
Material Cost	7,869.9	8,550.9	10,297.9	12,682.5
Traded goods	-269.4	246.5	315.6	387.3
Employee Cost	273.9	341.0	473.5	580.9
Admin & Other Exp.	1,438.5	1,838.0	2,761.9	3,388.5
EBITDA	1,101.2	2,150.6	2,378.6	2,863.2
Depreciation	150.8	219.9	229.5	241.1
EBIT	950.4	1,930.7	2,149.1	2,622.1
Other Income	22.1	16.6	40.6	39.8
Interest Expense	605.4	582.6	541.9	522.5
Profit Before Tax (PBT)	367.1	1,364.6	1,647.8	2,139.4
Income Tax	98.1	474.0	576.7	748.8
Profit After Tax (PAT)	269.1	890.7	1,071.1	1,390.6
Growth (%)	43.8%	231.0%	20.3%	29.8%
Diluted EPS	2.7	8.7	10.5	13.6

Exhibit: Balance Sheet
Figures in INR Million

Particulars	FY14	FY15	FY16E	FY17E
Share Capital	102.3	102.3	102.3	102.3
Reserve & Surplus	2,209.4	2,936.3	3,851.4	5,085.5
Shareholders Funds	2,311.8	3,038.7	3,953.7	5,187.8
Total Debt	4,062.3	3,431.0	3,886.5	4,045.8
Deferred Tax(Net)				
Total Liabilities	6,374.1	6,469.7	7,840.2	9,233.5
Net Block inc. Capital WIP	3468.1	3547.4	3863.0	4238.4
Deferred Tax (Net)	(217.8)	(264.7)	(279.7)	(279.7)
Non-Current Assets	5,337.4	7,089.5	7,891.0	9,971.1
Inventories	2,290.1	2,282.4	2,626.7	3,141.2
Sundry Debtors	2,308.5	3,757.8	4,198.2	5,774.9
Cash & Bank Balance	263.1	560.9	403.3	451.6
Other Current Assets	21.1	30.6	31.6	30.0
Loans & Advances	454.6	457.8	631.3	573.4
Current Liabilities & Prov	2,213.7	3,902.6	3,634.2	4,696.3
Total Assets	6,374.1	6,469.7	7,840.2	9,233.5

Exhibit: Cash Flow Statement
Figures in INR Million

Particulars	FY14	FY15	FY16E	FY17E
Profit Before Tax (PBT)	367.1	1,365.7	1,647.8	2,139.4
Depreciation	150.8	219.9	229.5	241.1
Finance Costs	605.4	582.6	541.9	522.5
Chg. in Working Capital	1,055.6	2,076.3	2,768.6	2,888.2
Direct Taxes Paid	(48.2)	(338.1)	(576.7)	(748.8)
Other Charges	(602.2)	(576.0)	(541.9)	(522.5)
Operating Cash Flows	405.1	1,162.2	1,649.9	1,616.9
Capital Expenditure	(326.8)	(319.4)	(315.3)	(375.0)
Investments	5.4	9.0	-	-
Others	2.5	-	-	-
Investing Cash Flows	(316.4)	(316.4)	(315.5)	(374.7)
Changes in Equity	-	-	-	-
Inc / (Dec) in Debt	(180.7)	(566.3)	(1,084.5)	(1,060.9)
Dividend Paid (inc tax)	(11.4)	(18.0)	(133.0)	(133.0)
Financing Cash Flows	(192.1)	(584.3)	(1,217.5)	(1,193.9)
Chg. in Cash & Cash Eqty	(103.3)	261.5	116.9	48.3
Opening Cash Balance	128.2	24.9	286.4	403.3
Balances with Banks	238.2	274.6	-	-
Closing Cash Balance	24.9	286.4	403.3	451.6

Exhibit: Ratio Analysis

Particulars	FY14	FY15	FY16E	FY17E
Earning Ratios (%)				
EBITDA Margin (%)	10.6%	16.9%	15.1%	14.8%
PAT Margins (%)	2.6%	6.8%	6.6%	7.0%
ROCE (%)	11.4%	19.9%	19.2%	20.1%
ROE (%)	7.7%	26.1%	29.5%	28.0%
Per Share Data (INR)				
Diluted EPS	2.7	8.7	10.5	13.6
Cash EPS (CEPS)	1.2	6.6	8.2	11.2
BVPS	23.4	29.7	38.6	50.7
Valuation Ratios (x)				
P/E	13.5	17.3	14.8	11.4
Price/BVPS	1.6	5.1	4.0	3.0
EV/Sales	0.7	1.4	1.2	1.0
EV/EBITDA	7.0	8.7	8.3	6.9
Dividend Yield (%)	0.4%	0.1%	0.8%	0.8%
Balance Sheet Ratios				
Debt - Equity	1.8	1.1	1.0	0.8
Current Ratio	2.4	1.8	2.2	2.1
Fixed Asset Turn. Ratios	1.5	1.9	2.2	2.4

Source: SKP Research

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Tickerplant and ISI Securities.

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Analyst ownership of the stock	NIL
Served as an officer, director or employee	NIL

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