

Institutional Research

CMP (Rs)	143
Target (Rs)	225

Nifty: 8,526; Sensex: 27,518

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs 2)	102.3
Market Cap (Rsbn)	14.5
52-Week High / Low	219 / 122
3-M Daily Avg. Vol.	1,34,411

Relative Performance

(%)	1m	3m	12m
SKIPPER	(9.2)	(7.9)	(8.2)
NIFTY	(2.1)	(0.6)	9.5
Sensex	(2.0)	(0.9)	6.9

Shareholding Pattern

(%)	Mar16	Jun16	Sep16
Promoter	72.4	72.4	72.4
FII	0.5	0.2	1.5
DII	2.9	3.0	3.1
Others	24.3	24.5	23.1

Amber Singhania

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

Skipper Ltd

BUY



Strong performance continues.....

Skipper Limited (Skipper); reported 2QFY17 strong results with 14.7% yoy sales growth, led by healthy sales volume. The revenue in PVC products increase by 65.7% yoy, whereas engineering segment revenue grew by 8.0% yoy with similar volume growth. Adjusted PAT stood at Rs 217mn up 17.5% yoy. Management guided a ~15-20% volume growth in engineering products along with ~60-65% yoy growth in PVC segment in FY17E. Order book continues to be healthy at 1.7c book-to-bill. Further the bidding pipeline continues to be strong. Company is seeing positive traction in its pipes business and planning to expand its products offering to HDP Pipes and Overhead Tanks. We have kept our FY17E/FY18E estimates unchanged. We expect a 35.3% CAGR growth in PAT during FY16-18E. Given the strong order book & pipeline, high and improving 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 225, based on 15x PER of FY18 EPS.

2QFY17 reported strong results with Engineering segment EBIT margin of 13.6%: Revenue grew at 14.7% yoy to Rs4.0 bn, on the back of strong growth in PVC. The healthy order book execution led to a decent 8.0% yoy growth in engineering segment revenue, whereas PVC segment revenue grew by 65.7% yoy led by pan India presence. Engineering product segment EBIT margin remained healthy at 13.6%, owing to better sales mix. Adjusted PAT came in higher at Rs 217mn registering a growth of 17.5% yoy. Infrastructure segment revenue grew healthy at 218.3% yoy to Rs125mn with a healthy EBITM of 13.2%.

1H FY17 shows strong results with 16.9% yoy sales growth, Engineering Products segment reported 12.8% yoy growth, PVC products segment reported 36.7% yoy growth and Infrastructure Projects segment reported 91.2% yoy growth. EBITM remained healthy at 14.2% for Engineering products and 9.3% in plastic products.

Stronger order book and pipeline will lead to robust revenues during FY16-FY18: Skipper has current order book of over Rs23bn, amounting to a book-to-bill of 1.7x FY16 revenue. Order inflow in 2QFY17 was at ~2.7bn, further the company has submitted bids worth Rs7 bn and expects healthy inflows in coming quarters. We expect strong order inflow from PGCIL's north east based projects, SEB tenders and from International region with company entering into newer geographies.

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 a 60% plus yoy growth in PVC segment revenue in FY17E. 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 PAT CAGR of 23.7% and 35.3% during FY16-18E. Return ratios to improve in FY18E with ROCE at 26.6% and ROE at 28.7%. Given the positively placed business model to capture the high growth of TLT segment backed by public spending, increasing export orders, significant improvement in EBITDAM due to restructuring of operations, benefits of backwards integration, 4x expansion in PVC segment, strong return ratios, robust growth, improving EBITDAM and young management team; we believe SKIPPER has a strong business prospects. We maintain our BUY rating and a TP of Rs225 based on 15x PER of FY18 EPS. At CMP the stock is trading at 12.5x FY17E and 9.5x FY18E.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Sales	10,415	12,702	14,624	18,300	22,379
yoY (%)	15.7	22.0	15.1	25.1	22.3
EBITDA	1,102	1,731	2,011	2,617	3,211
yoY (%)	29.3	57.1	16.2	30.1	22.7
Adjusted PAT	269	682	840	1,169	1,537
yoY (%)	43.8	231.4	23.1	39.2	31.5
Equity	102	102	102	102	102
EPS	2.6	6.7	8.2	11.4	15.0

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	10.6	13.6	13.5	14.3	14.4
NPM (%)	2.6	5.4	5.6	6.4	6.9
PER (x)	54.5	16.4	15.4	12.5	9.5
P/BV (x)	6.3	4.8	3.8	3.1	2.5
EV/Sales (x)	1.8	1.4	1.3	1.1	0.9
EV/ EBITDA (x)	17.1	10.4	9.4	7.4	6.1
RoACE (%)	14.5	21.7	22.9	24.7	26.6
RoANW (%)	12.3	33.3	27.8	27.3	28.7

Exhibit 3: Skipper Ltd: 2Q FY17 quarterly results

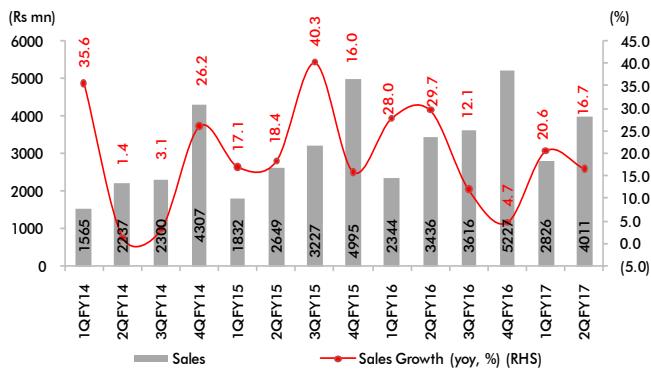
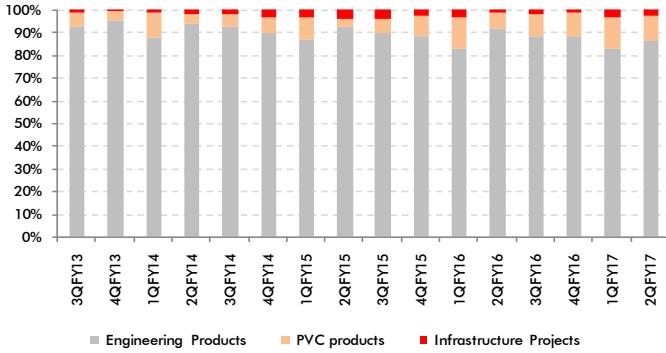
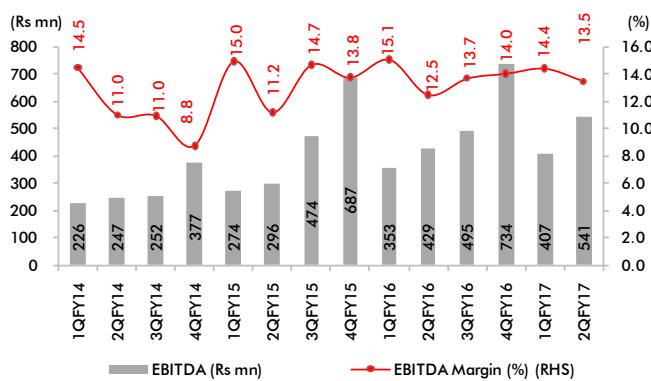
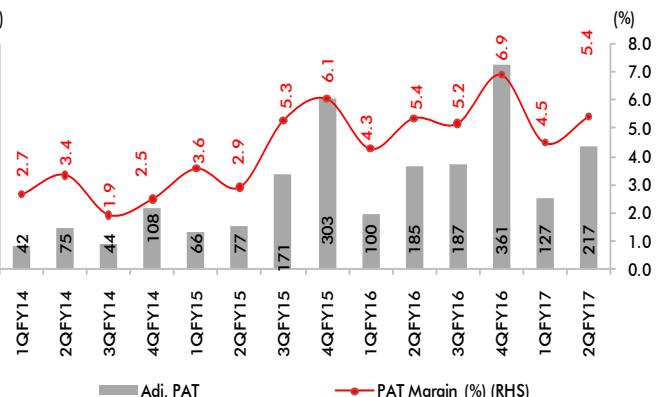
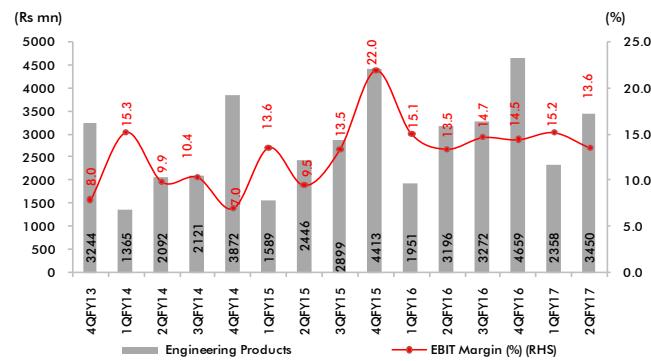
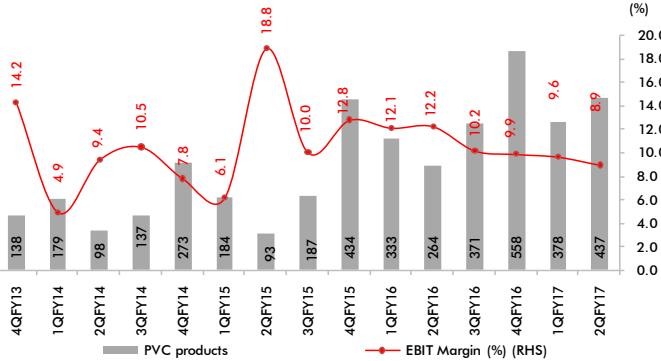
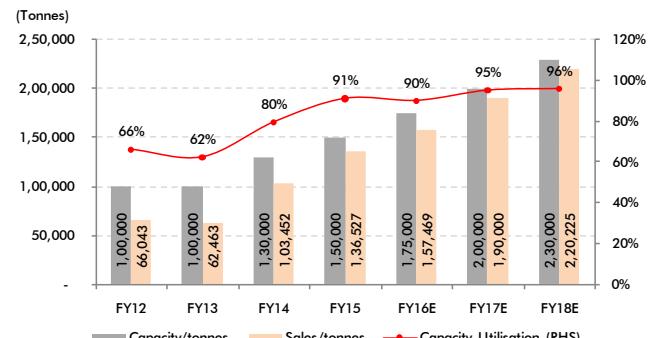
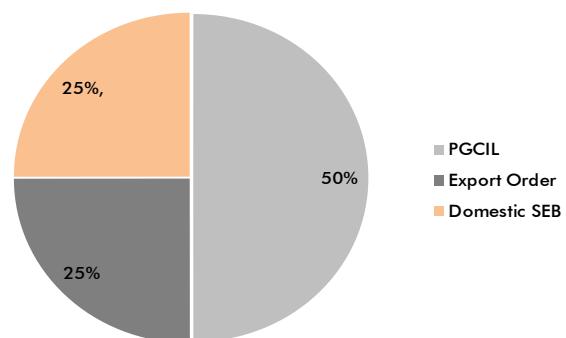
Y/E March (Rs mn)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	yoy(%)	qoq (%)	H1FY16	H1FY17	yoy (%)
Net Sales	3,436	3,616	5,227	2,826	4,011	16.7	41.9	5,780	6,838	18.3
Other Operational Income	63	102	70	18	1	(97.9)	(92.7)	85	19	
Total Sales	3,499	3,718	5,297	2,844	4,013	14.7	41.1	5,866	6,857	16.9
Stock Adjustment	(197)	28	820	(169)	(491)	149.5	190.2	(901)	(660)	(26.7)
Cons. of Raw Materials	2,486	2,294	2,593	1,940	3,019	21.4	55.6	4,651	4,959	6.6
Employee Cost	124	122	152	155	192	55.0	23.6	226	347	53.7
Other Expenditure	657	779	998	511	752	14.5	47.2	1,108	1,263	14.0
Total Expenditure	3,070	3,223	4,563	2,437	3,472	13.1	42.5	5,084	5,909	16.2
EBITDA	429	495	734	407	541	26.1	32.7	782	948	21.2
Add: Other Income	26	9	11	8	7	(71.9)	(5.8)	32	15	(53.1)
Interest	114	153	155	160	150	31.5	(6.2)	262	310	18.7
Depreciation	58	61	63	67	72	24.1	6.3	117	139	19.4
Excp. Item	181	-	-	15	15	(91.9)	(2.2)	181	30	(83.7)
Profit Before Tax	464	289	526	203	341	(26.6)	68.1	617	543	(12.0)
Provision for Taxation	161	102	165	65	114	(29.1)	74.6	214	179	(16.3)
PAT	303	187	361	137	226	(25.3)	65.1	403	364	(9.8)
Adj Net Profit	185	187	361	127	217	17.5	70.6	285	344	20.7
Equity Capital (FV Rs 1)	102	102	102	102	102			102	102	
Basic EPS (Rs)	3.0	1.8	3.5	1.3	2.2				3.9	3.6
Adjusted EPS (In Rs)	1.8	1.8	3.5	1.2	2.1				2.8	3.4
EBITDA (%)	12.2	13.3	13.9	14.3	13.5	122bp	(85bp)	13.3	13.8	49bp
PAT (%)	5.2	5.0	6.8	4.5	5.4	16bp	94bp	4.8	5.0	18bp
Tax / PBT (%)	34.7	35.3	31.4	32.3	33.5			34.7	33.0	
Raw Mat. / Net Sales (%)	65.4	62.5	64.4	62.3	63.0	(244bp)	74bp	63.9	62.7	

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 2Q FY17 Segmental finance

Y/E March(Rs mn)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	yoy (%)	qoq (%)	H1FY16	H1FY17	yoy%
Segment Revenue										
Engineering Products	3196	3272	4659	2358	3450	8.0	46.3	5147	5808	12.8
PVC products	264	371	558	378	437	65.7	15.5	596	815	36.7
Infrastructure Projects	39	74	81	108	125	218.3	15.9	122	234	91.2
Total Segment Revenue	3499	3718	5297	2844	4013	14.7	41.1	5866	6857	16.9
Segment Results										
Engineering Products	430	481	675	360	469	9.1	30.5	725	829	14.3
PVC products	32	38	55	36	39	21.3	7.2	72	76	4.3
Infrastructure Projects	5	14	4	14	17	236.4	14.6	24	31	27.9
Total	467	533	734	410	525	12.3	27.9	822	935	13.8
EBIT Margin										
Engineering Products	13.5	14.7	14.5	15.2	13.6	14bp	(165bp)	14.1	14.3	18bp
PVC products	12.2	10.2	9.9	9.6	8.9	(328bp)	(69bp)	12.1	9.3	(288bp)
Infrastructure Projects	12.5	19.1	5.5	13.4	13.2	71bp	(14bp)	19.9	13.3	(658bp)
Total EBIT Margin	13.4	14.3	13.9	14.4	13.1	(28bp)	(135bp)	14.0	13.6	(37bp)

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: PGCIL constitutes 50% of order book of Rs23bn**

Source: AMSEC Research

Financials (Consolidated)
(Rs mn)

Profit & Loss Account					Cash Flow Statement						
Particulars	FY14	FY15	FY16	FY17E	FY18E	Particulars	FY14	FY15	FY16	FY17E	FY18E
Net sales	10,415	12,702	14,624	18,300	22,379	PBT	367	1,366	1,433	1,719	2,227
Other operating income	-	6	257	-	-	Non-cash adjustments	130	203	189	285	312
Consumption of materials	7,600	8,797	9,485	12,444	15,217	Changes in working capital	(129)	187	(1,059)	(1,012)	(1,269)
Staff Expenses	274	341	500	494	627	Interest Paid	605	583	570	613	672
Other operating expenses	1,439	1,838	2,885	2,745	3,323	Tax Paid & Other Adj	(91)	(449)	(439)	(550)	(690)
Total Expenditure	9,313	10,976	12,870	15,683	19,167	Cashflow from operations	883	1,889	695	1,055	1,252
EBITDA	1,102	1,731	2,011	2,617	3,211	Capital exp. & Advances	(315)	(304)	(926)	(701)	(500)
Depreciation	151	220	241	305	332	Change in investments	-	-	-	-	-
Operating profit	951	1,512	1,770	2,312	2,879	Other investing cashflow	21	17	52	20	20
Other income	21	17	52	20	20	Cashflow from investing	(294)	(287)	(874)	(681)	(480)
EBIT	973	1,528	1,822	2,332	2,899	Issue of equity	5	0	-	-	-
Interest	605	583	570	613	672	Issue/repay debt	165	(566)	853	300	500
Exceptional items	-	(420)	(181)	-	-	Interest Paid	(605)	(583)	(570)	(613)	(672)
Profit before tax	367	1,366	1,433	1,719	2,227	Dividends paid	(18)	(156)	(168)	(239)	(299)
Tax	98	474	482	550	690	Other financing cashflow	-	-	-	-	-
Minority interest	-	-	-	-	-	Cashflow from financing	(454)	(1,305)	116	(552)	(471)
Reported net profit	269	892	951	1,169	1,537	Change in cash & cash eq	135	298	(63)	(178)	301
Adjusted net profit	269	682	840	1,169	1,537	Opening cash & cash eq	128	263	561	498	320
Share O/s mn	102	102	102	102	102	Closing cash & cash eq	263	561	498	320	621
EPS Rs (adjusted)	2.6	6.7	8.2	11.4	15.0	Free cash flow to firm	567	1,586	(230)	354	752

Balance Sheet

Particulars	FY14	FY15	FY16	FY17E	FY18E	Particulars	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :											
Share Capital	102	102	102	102	102	PER SHARE					
Reserves	2,209	2,936	3,713	4,642	5,880	EPS Rs (adjusted)	2.6	6.7	8.2	11.4	15.0
Minority Interest	-	-	-	-	-	CEPS Rs	4.1	8.8	10.6	14.4	18.3
Total Shareholders Funds	2,312	3,039	3,815	4,745	5,982	Book Value Rs	22.6	29.7	37.3	46.4	58.5
Non-Current Liabilities	2,534	1,974	2,311	2,311	2,311	VALUATION					
Long term borrowings	2,307	1,707	1,983	1,983	1,983	EV / Net Sales	1.8	1.4	1.3	1.1	0.9
Deferred tax liability	218	265	315	315	315	EV / EBITDA	17.1	10.4	9.4	7.4	6.1
Other long term liabilities	10	-	-	-	-	P / E Ratio	54.5	16.4	15.4	12.5	9.5
Long-term provisions	-	2	13	13	13	P / BV Ratio	6.3	4.8	3.8	3.1	2.5
Current Liabilities	3,969	5,625	5,776	6,807	8,200	GROWTH YOY%					
Short term borrowings	1,755	1,724	2,419	2,719	3,219	Sales Growth	15.7	22.0	15.1	25.1	22.3
Trade payables	1,563	2,415	2,124	2,758	3,372	EBITDA Growth	29.3	57.1	16.2	30.1	22.7
Other current liabilities	626	1,277	1,039	1,280	1,547	Net Profit Growth	43.8	231.4	23.1	39.2	31.5
Short term provisions	25	208	193	50	61	Gross Fixed Asset Growth	7.3	8.9	13.1	16.5	8.8
Total Equity & Liabilities	8,815	10,637	11,903	13,863	16,494	PROFITABILITY (%)					
APPLICATION OF FUNDS :											
Non Current Assets	3,489	3,578	4,274	4,669	4,836	Gross Profit/ Net sales	19.7	22.5	26.3	25.2	25.2
Gross block (Total)	3,943	4,295	4,856	5,656	6,156	EBITDA / Net Sales	10.6	13.6	13.5	14.3	14.4
Less : accumulated depreciati	558	782	1,004	1,309	1,641	EBIT / Net sales	9.1	11.9	12.1	12.6	12.9
Net block (Total)	3,385	3,513	3,852	4,347	4,515	NPM / Total income	2.6	5.4	5.6	6.4	6.9
Capital work in progress	83	35	399	300	300	Raw Material/Net Sales	73.0	69.2	63.7	68.0	68.0
Noncurrent investment	-	-	-	-	-	Int/PBIT	63.6	38.5	32.2	26.5	23.3
Long term loans and advance	-	-	-	-	-	RONW	12.3	33.3	27.8	27.3	28.7
Other non-current assets	21	31	22	22	22	ROCE	14.5	21.7	22.9	24.7	26.6
Current Assets	5,326	7,059	7,629	9,194	11,657	Tax / PBT	26.7	50.1	38.5	32.0	31.0
Current investment	-	-	-	-	-	TURNOVER					
Inventories	2,290	2,282	2,500	3,159	3,985	Net Working Cycle	112	87	100	101	103
Sundry debtors	2,318	3,758	3,724	4,663	5,947	Debtors Velocity (Days)	81	108	91	93	97
Cash and bank	263	561	498	320	621	Inventory (Days)	90	76	71	74	76
Short loans and advances	455	458	907	1,053	1,104	Creditors Velocity (Days)	75	100	82	81	81
Others current assets	-	-	-	-	-	Current Ratio	2.8	2.6	3.1	3.0	3.1
Total Assets	8,815	10,637	11,903	13,863	16,494	Quick Ratio	1.6	1.8	2.1	2.0	2.0
Net Working Capital*	3,193	3,785	4,673	5,874	7,243	LIQUIDITY					
Total Gross Debt*	4,395	3,829	4,682	4,982	5,482	Gross Asset Ratio	2.7	3.1	3.3	3.5	3.8
Total Net Debt	4,132	3,268	4,184	4,662	4,861	Total Asset Ratio	1.2	1.3	1.3	1.4	1.5
Capital Employed*	6,924	7,132	8,812	10,041	11,779	Net Debt-Equity Ratio	1.8	1.1	1.1	1.0	0.8
						Interest Coverage (x)	1.6	2.6	3.2	3.8	4.3
PAYOUT											
Payout %	-	-	-	-	-						
Dividend %	15	130	140	200	250						
Yield %	0.1	0.9	1.0	0.9	1.6						

aSource: 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.

Disclosures

This Report is published by Asian Markets Securities Private Limited (hereinafter referred to as "AMSEC") for private circulation. AMSEC is a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments. It is also having registration as a Depository Participant with CDSL and as Portfolio Manager. 'AMSEC' is registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration Number as INH000001378.'

AMSEC has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

AMSEC or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. AMSEC, its associates or analyst or his relatives do not hold any financial interest in the subject company. AMSEC or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. AMSEC or its associates or Analyst or his relatives hold / do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

AMSEC or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. AMSEC or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and AMSEC / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, **Amber Singhania** the research analysts and authors of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

- | | |
|---|-----------------|
| 1. Name of the analyst: | Amber Singhania |
| 2. Analysts' ownership of any stock related to the information contained: | Nil |
| 3. AMSEC ownership of any stock related to the information contained: | None |
| 4. Broking relationship with company covered: | None |
| 5. Investment Banking relationship with company covered: | None |

Disclaimer

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. AMSEC is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of AMSEC and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. AMSEC will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject AMSEC & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. AMSEC or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. AMSEC or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. AMSEC reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, AMSEC is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of AMSEC accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither AMSEC, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with AMSEC.

Our reports are also available on Fact Set and Bloomberg ASNM <GO>