

INDUSTRY	CAPITAL GOODS
CMP (As on 15 May 2017)	Rs 197
Target Price	Rs 223
Nifty	9,445
Sensex	30,322
KEY STOCK DATA	
Bloomberg	SKIPPER IN
No. of Shares (mn)	102
MCap (Rs bn) / (\$ mn)	20/314
6m avg traded value (Rs mn)	26
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 201/125
	3M 6M 12M
Absolute (%)	34.3 49.5 39.6
Relative (%)	26.6 34.3 20.6
SHAREHOLDING PATTERN (%)	
Promoters	70.41
FIs & Local MFs	10.87
FPIs	1.52
Public & Others	17.20
Source : BSE	

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Steady performance

Skipper's 4QFY17 results (adjusted for forex gains) were in line with our estimates. Revenue grew 7% YoY, led by 25% growth in the PVC business. As per the mgmt, PVC sales normalised starting Feb-17 (post demonet impact). EBITDA margin at 13.2% (-70bps YoY) was in line with our estimates, adjusted for a forex gain of Rs 164mn. APAT grew 12% YoY to Rs 404mn. The order book stood robust at Rs 26bn (+7% YoY), providing comfort to our revenue estimates for FY18/19E.

Power transmission capex in India remains strong. Skipper continues to enjoy the benefits of low-cost integrated operations. Despite demonet, the PVC business grew 30% YoY in FY17. The outlook for this segment is promising, with industry growth at ~15% and a shift from the unorganised to organised segment as GST kicks in. With ROEs consistently over 20%, valuations (13.2x FY19E EPS) look attractive, both on a relative and absolute basis. Reiterate BUY with a TP of Rs 223/share (15x FY19E EPS), implying a 13% upside from current levels.

Financial Summary: Standalone

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY15	FY16	FY17P	FY18E	FY19E
Net Sales	5,674	5,298	7	4,306	32	12,707	14,881	16,836	19,553	22,310
EBITDA	749	734	2	570	31	1,729	2,023	2,267	2,692	3,100
APAT	404	361	12	223	81	616	839	978	1,239	1,523
Diluted EPS (Rs)	3.9	3.5	12	2.2	81	6.0	8.2	9.6	12.1	14.9
P/E (x)						32.7	24.0	20.6	16.2	13.2
EV / EBITDA (x)						13.5	12.0	10.6	8.9	7.6
RoE (%)						23.0	24.5	22.3	22.6	22.8

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO>

Adjusted for gain on cancellation/roll forward of forward contract amounting to Rs 163.7mn in 4QFY17, revenue for the quarter grew 7% YoY to Rs 5.7bn

Tax rate declined ~720bps YoY to 24.2% in 4QFY17 on account of MAT credit entitlement amounting to Rs 63.5mn

Quarterly Financials Snapshot: Standalone

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	5,674	5,298	7	4,306	32
Material Expenses	3,767	3,413		2,843	
Employee Expenses	192	152		193	
Other Operating Expenses	966	998		700	
EBITDA	749	734	2	570	31
Depreciation	100	63		76	
Other Income	172	11		8	
Interest Cost	124	155		177	
PBT	697	526	32	325	114
Tax	169	165		102	
RPAT	528	361	46	223	136
EO Items (Adj For Tax)	(124)	-		-	
APAT	404	361	12	223	81

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses % Net Sales	66.4	64.4	196	66.0	37
Employee Expenses % Net Sales	3.4	2.9	51	4.5	(109)
Other Operating Expenses % Net Sales	17.0	18.8	(181)	16.3	77
EBITDA Margin (%)	13.2	13.9	(66)	13.2	(5)
Tax Rate (%)	24.2	31.4	(717)	31.3	(709)
APAT Margin (%)	7.1	6.8	30	5.2	193

Source: Company, HDFC sec Inst Research

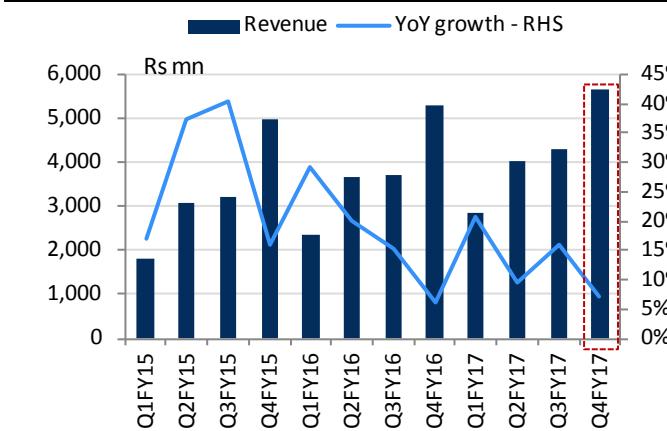
While engineering product revenues were largely flat YoY, Polymer / Infrastructure revenues grew 25/291% YoY respectively

Segmental Quarterly Performance: Standalone

Rs mn	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Segmental Revenue					
Infrastructure Projects	315	81	291	265	19
Polymer Products	695	558	25	470	48
Engineering Products	4,664	4,659	0	3,571	31
Total	5,674	5,298	7	4,306	32
EBIT					
Infrastructure Projects	45	4	912	35	26
Polymer Products	58	55	5	32	79
Engineering Products	609	675	(10)	466	31
EBIT Margins (%)					
Infrastructure Projects	14.2	5.5	869	13.4	76
Polymer Products	8.3	9.8	-154	6.9	145
Engineering Products	13.1	14.5	-142	13.1	(0)

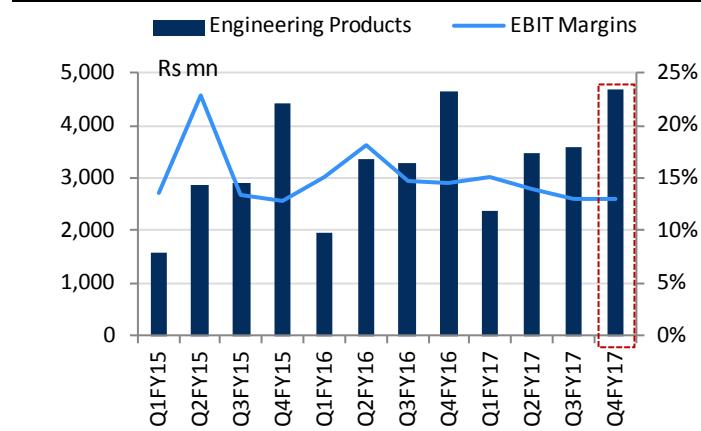
Source: Company, HDFC sec Inst Research

Revenue Trajectory



Source: Company, HDFC sec Inst Research

Engineering Projects: Revenue And EBIT Margin

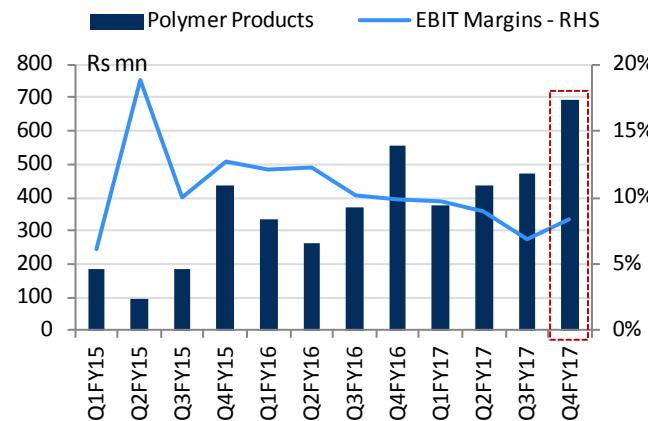


Source: Company, HDFC sec Inst Research

In the Engineering Projects segment, Skipper has entered two new geographies (Botswana and Philippines) in 4QFY17

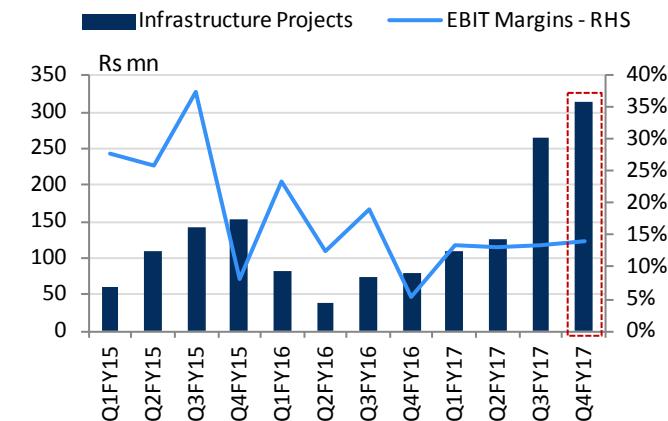
Shift from the unorganised to organised sector post GST kicking in is likely to benefit Skipper's Polymer Product division

Polymer Products: Revenue And EBIT Margin



Source: Company, HDFC sec Inst Research

Infrastructure Products: Revenue And EBIT Margin



Source: Company, HDFC sec Inst Research

Key Assumptions & Estimates: Standalone

Rs mn	FY15	FY16	FY17P	FY18E	FY19E
Revenue					
Engineering Products	11,768	13,260	14,237	15,878	17,679
YoY growth	23.2%	12.7%	7.4%	11.5%	11.3%
Infrastructure Projects	462	277	813	976	1,122
YoY growth	71.2%	-40.2%	193.9%	20.0%	15.0%
Polymer Products	897	1,525	1,980	2,699	3,509
YoY growth	51.8%	70.0%	29.8%	36.3%	30.0%
Total	13,128	15,062	17,030	19,553	22,310
YoY growth	26.0%	14.7%	13.1%	14.8%	14.1%
Polymers- Sales quantity (MT)	11,331	20,107	25,134	31,669	39,586
Polymers- Realization (Rs/ MT)	79,190	75,864	81,175	85,233	88,643

EBIT Margins

Engineering Products	11.8%	13.2%	13.3%	13.8%	13.8%
Infrastructure Projects	23.8%	15.4%	13.7%	12.5%	12.0%
Polymer Products	11.5%	10.8%	8.4%	10.0%	11.0%
Capex	313	917	978	750	750
Net Debt	3,268	4,184	3,909	3,783	3,510

Source: Company, HDFC sec Inst Research

With an increase in penetration and better product mix, the company expects Polymer margins to be in double digits in FY18E

Peer Valuations

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Larsen & Toubro ^	1,623	1,742	BUY	1,798	64.8	69.2	69.8	21.4	20.0	19.8	19.0	17.3	15.3	13.1	12.8	11.9
Cummins India *	296	1,066	NEU	1,033	27.3	30.6	34.4	39.0	34.8	31.0	35.4	31.3	27.4	22.8	23.3	23.6
Voltas	143	432	BUY	462	13.3	15.3	17.7	32.6	28.3	24.5	24.2	20.2	17.1	17.2	17.4	17.8
Thermax	122	1,028	SELL	796	26.3	27.8	31.8	39.0	37.0	32.3	27.8	24.5	20.7	12.8	12.4	13.0
Suzlon	99	20	BUY	24	1.0	1.1	1.2	18.9	18.6	16.0	9.8	9.7	8.0	NA	NA	NA
Carborundum Universal	58	310	BUY	340	8.6	11.6	13.6	36.2	26.8	22.8	16.5	14.5	12.5	12.6	14.9	15.5
CG Power & Industrial ^	59	94	BUY	84	-1.2	1.6	1.6	NA	52.6	51.0	17.5	15.3	14.0	-1.7	2.2	2.3
Triveni Turbine	46	139	BUY	152	4.0	4.5	5.1	35.0	31.0	27.2	24.8	21.6	18.5	39.0	34.5	31.1
Kalpataru Power * ^	54	350	BUY	392	17.2	18.5	21.3	16.1	15.0	13.0	11.0	10.0	8.8	11.1	10.8	11.2
Techno Electric ^ #	46	409	NEU	400	12.0	15.5	18.4	27.4	21.3	18.0	14.2	13.0	11.4	20.1	20.7	20.1
KEC International	59	231	NEU	212	10.2	12.3	14.1	22.7	18.7	16.3	10.8	9.4	8.5	16.1	16.8	16.6
Engineers India *	114	169	BUY	178	5.6	6.2	8.0	30.1	27.2	21.1	24.3	21.6	15.2	13.8	14.6	18.0
Skipper Limited *	20	197	BUY	223	9.6	12.1	14.9	20.6	16.2	13.2	10.6	8.9	7.6	22.3	22.6	22.8
Sanghvi Movers *	11	246	BUY	331	21.8	25.7	27.6	11.3	9.6	8.9	4.6	4.3	3.6	12.0	12.7	12.2

*Represent SA numbers

^ Adjusted for value of Subs /JV's / non-core businesses

For comparative purpose, EPS represents earnings from Core T&D EPC business

Source: Company, HDFC sec Inst Research

Income Statement: Standalone

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Net Revenues	12,707	14,881	16,836	19,553	22,310
Growth (%)	22.0	17.1	13.1	16.1	14.1
Material Expenses	8,797	9,485	10,908	12,709	14,501
Employee Expenses	341	500	732	841	967
SG&A Expenses	1,840	2,873	2,930	3,311	3,741
Total Expenses	10,978	12,858	14,569	16,861	19,210
EBITDA	1,729	2,023	2,267	2,692	3,100
EBITDA Margin (%)	13.6	13.6	13.5	13.8	13.9
EBITDA Growth (%)	55.3	17.0	12.1	18.7	15.2
Depreciation	220	241	315	336	365
EBIT	1,509	1,782	1,952	2,356	2,735
Other Income (Including EO Items)	439	221	225	34	38
Interest	583	570	611	568	533
PBT	1,365	1,433	1,565	1,822	2,240
Tax (Incl Deferred)	474	482	450	583	717
RPAT	891	951	1,115	1,239	1,523
EO (Loss) / Profit (Net Of Tax)	276	112	138	-	-
APAT	616	839	978	1,239	1,523
APAT Growth (%)	134.8	36.2	16.5	26.7	22.9
Adjusted EPS (Rs)	6.0	8.2	9.6	12.1	14.9
EPS Growth (%)	134.8	36.2	16.5	26.7	22.9

Source: Company, HDFC sec Inst Research

Balance Sheet: Standalone

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	102	102	102	102	102
Reserves	2,936	3,713	4,841	5,895	7,233
TOTAL SHAREHOLDERS FUNDS	3,039	3,815	4,943	5,997	7,336
Long Term Debt	1,707	1,983	1,758	1,758	1,758
Short Term Debt	2,122	2,699	2,400	2,200	1,900
TOTAL DEBT	3,829	4,682	4,159	3,959	3,659
Net Deferred Taxes	265	315	391	391	391
Long Term Provisions & Others	2	13	1	13	15
TOTAL SOURCES OF FUNDS	7,134	8,825	9,494	10,360	11,400
APPLICATION OF FUNDS					
Net Block	3,513	3,852	4,642	4,600	4,985
CWIP	65	421	294	750	750
Investments	-	-	-	-	-
LT Loans & Advances	-	-	-	-	-
Total Non-current Assets	3,578	4,274	4,936	5,350	5,735
Inventories	2,282	2,500	3,682	3,750	4,279
Debtors	3,758	3,724	3,730	4,553	5,195
Other Current Assets	458	907	713	804	917
Cash & equivalents	561	498	249	175	149
TOTAL CURRENT ASSETS	7,059	7,629	8,374	9,282	10,539
Creditors	3,295	2,884	3,791	4,018	4,584
Other Current Liabilities & Provns	208	193	25	254	290
TOTAL CURRENT LIABILITIES	3,503	3,077	3,816	4,272	4,874
NET CURRENT ASSETS	3,556	4,552	4,558	5,010	5,665
TOTAL APPLICATION OF FUNDS	7,134	8,825	9,494	10,360	11,400

Source: Company, HDFC Sec Inst Research

Cash Flow Statement: Standalone

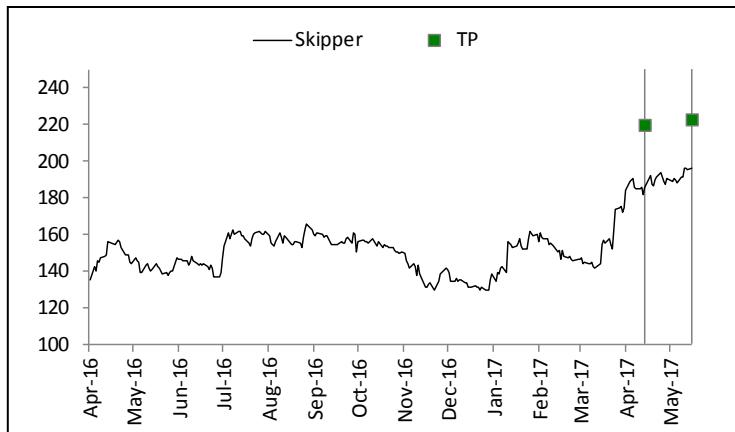
(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Reported PBT	1,365	1,433	1,565	1,822	2,240
Non-operating & EO items	(439)	(221)	(225)	(34)	(38)
Interest Expenses	583	570	611	568	533
Depreciation	220	241	315	336	365
Working capital change	179	(1,047)	(267)	(514)	(680)
Tax Paid	(474)	(482)	(450)	(583)	(717)
Other operating items	47	28	280	-	-
OPERATING CASH FLOW (a)	1,481	522	1,830	1,595	1,703
Capex	(313)	(917)	(978)	(750)	(750)
Free Cash Flow	1,168	(395)	853	845	953
Investments	-	-	-	-	-
Non-operating Income	439	221	225	34	38
INVESTING CASH FLOW (b)	126	(696)	(753)	(716)	(712)
Debt Issuance/(Repaid)	(566)	853	(523)	(200)	(300)
Interest	(583)	(570)	(611)	(568)	(533)
FCFE	19	(111)	(282)	76	120
Share Capital Issuance	-	0	-	-	-
Dividend	(160)	(172)	(191)	(185)	(185)
FINANCING CASH FLOW (c)	(1,309)	111	(1,325)	(953)	(1,018)
NET CASH FLOW (a+b+c)	298	(63)	(248)	(74)	(27)
Closing Cash & Equivalents	561	498	249	175	149

Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY15	FY16	FY17P	FY18E	FY19E
PROFITABILITY %					
GPM	30.8	36.3	35.2	35.0	35.0
EBITDA margin	13.6	13.6	13.5	13.8	13.9
APAT margin	4.8	5.6	5.8	6.3	6.8
RoE	23.0	24.5	22.3	22.6	22.8
Core RoCE (RoIC)	14.9	15.9	15.8	16.5	17.4
RoCE	14.2	15.3	15.4	16.4	17.3
EFFICIENCY					
Tax Rate (%)	34.7	33.6	28.7	32.0	32.0
Fixed Asset Turnover (x)	3.6	3.5	3.4	3.7	3.9
Inventory (days)	65.6	61.3	79.8	70.0	70.0
Debtors (days)	107.9	91.3	80.9	85.0	85.0
Other Current Assets (days)	13.1	22.3	15.5	15.0	15.0
Payables (days)	94.6	70.7	82.2	75.0	75.0
Other Current Liab & Provs (days)	6.0	4.7	0.5	4.8	4.8
Cash conversion cycle (days)	86.0	99.4	93.4	90.3	90.3
Debt/EBITDA (x)	2.2	2.3	1.8	1.5	1.2
Net D/E (x)	1.1	1.1	0.8	0.6	0.5
Interest Coverage (x)	2.6	3.1	3.2	4.1	5.1
PER SHARE DATA (Rs)					
EPS	6.0	8.2	9.6	12.1	14.9
CEPS	8.2	10.6	12.6	15.4	18.4
Dividend	1.3	1.4	1.6	1.5	1.5
Book Value	29.7	37.3	48.3	58.6	71.7
VALUATION					
P/E (x)	32.7	24.0	20.6	16.2	13.2
P/BV (x)	6.6	5.3	4.1	3.4	2.7
EV/EBITDA (x)	13.5	12.0	10.6	8.9	7.6
EV/Revenues (x)	1.8	1.6	1.4	1.2	1.1
OCF/EV (%)	6.3	2.1	7.6	6.7	7.2
FCF/EV (%)	5.0	(1.6)	3.5	3.5	4.0
FCFE/Mkt Cap (%)	0.1	(0.6)	(1.4)	0.4	0.6
Dividend yield (%)	0.7	0.7	0.8	0.8	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY

Date	CMP	Reco	Target
17-Apr-17	185	BUY	220
15-May-17	197	BUY	223

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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