

Institutional Equity Research

Skipper

Capital Goods | India

1QFY18 Result Update | September 06, 2017

CMP (Rs)	216
Upside/ (Downside) (%)	17.6
Bloomberg Ticker	SKIPPER IN
Market Cap. (Rs bn)	21.7
Free Float (%)	29.6
Shares O/S (mn)	102.3



Target Price: Rs254

Healthy Performance Continues; Transmission Capex Play

Skipper has delivered a strong performance in 1QFY18 as well with its net revenue growing by 39.6% YoY to Rs4.32bn led by healthy performance in Engineering Products and Infra Projects segments. Reported revenue includes sale of surplus inventory worth Rs500-550mn carried forward from 4QFY17, in absence of which revenue would have grown by 24% YoY. Looking ahead, we continue to believe that a sizeable order book, huge imminent opportunities and diversification into PVC business firmly place Skipper on higher growth trajectory. Notably, the stock has witnessed a sharp rally since our initiation report with BUY recommendation in Feb'17. **Remaining positive on Skipper's fundamentals, we reiterate our BUY recommendation on the stock with an upwardly revised Target Price of Rs254 (from Rs187 earlier).**

Strong Engineering Volumes Lift Net Sales

Strong volume in Engineering Products segment led to revenue growth, while glitches relating to GST roll-out restricted revenue growth in Polymer segment. Revenue from Transmission business – which contributes 84% of Skipper's overall sales – surged by 42.6% to Rs3.36bn. PVC business grew by just 1.9% YoY to Rs384mn, while revenue from Infra Projects business zoomed by 124.4% YoY on low base and faster completion of key projects.

EBITDA Margin at 11.9%; PAT up 51.7% YoY

Led by healthy execution, Skipper's EBITDA and PAT surged 31.2% YoY and 51.7% YoY to Rs516mn and Rs160mn, respectively. Its overall EBITDA margin declined by 80bps YoY to 11.9% owing to higher commodity prices. Margin in Engineering Products, Polymer and Infra Projects segments declined by 100bps YoY, 100bps YoY and 130bps YoY to 13.4%, 9.3% and 12.5%, respectively.

Foray into Solar Structure Biz

The solar structures – ground-based module mounting, roof top mounting, module mounting accessories and seasonal tilt – will be manufactured at existing Uluberia plant. As per the Management, the required automated machineries have already been installed at the plant.

Outstanding Order Book at Rs26.4bn

The Company has secured new orders worth Rs3.57bn during Q1FY18 for transmission tower supply from PGCIL, Transmission Corporation of Telangana, UP Power Transmission Corporation and other clients. Its outstanding order book stands at Rs26.4bn, which is 1.5x of FY17 revenue.

Outlook & Valuation

Looking ahead, we expect Skipper's sales and PAT to witness 15.0% and 24.6% CAGR, respectively over FY17-FY19E, while RoCE is seen at 22.4% by FY19E. Given higher revenue visibility and huge imminent opportunities, we increase our target multiple to 15x FY19 earnings from 12x earlier. **We reiterate our BUY recommendation on the stock with an upwardly revised Target Price of Rs254.**

Share price (%) 1 mth 3 mth 12 mth

Absolute performance	(0.9)	4.8	35.8
Relative to Nifty	(0.5)	2.2	22.5

Shareholding Pattern (%) Mar'17 Jun'17

Promoter	70.4	70.4
Public	29.6	29.6

1 Year Stock Price Performance



Note: * CMP as on Sept. 06, 2017

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	15,062	17,030	19,724	22,522
PAT	951	1,115	1,408	1,730
EPS (Rs)	9.3	10.9	13.8	16.9
PE (x)	23.2	19.8	15.7	12.8
EV/EBITDA (x)	12.4	10.9	9.0	7.6
Book value (Rs/share)	37.3	48.3	60.4	75.6
P/BV (x)	5.8	4.5	3.6	2.9
ROCE	20.5	20.9	24.0	25.2
RONW	24.9	22.6	22.8	22.4

Source: Company, RSec Research

Research Analyst: Rupesh Sankhe

Contact: (022) 3320 1606

Email: rupesh.sankhe@relianceada.com

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Risks to the View

- Lower-than-expected order inflows from PGCIL.
- Any significant delay in project execution.

Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	YoY %	4QFY17	QoQ %
Net Sales	4,327.2	3,098.8	39.6	5,837.3	(25.9)
Operating Costs	3,811.1	2,705.5	40.9	4,924.9	(22.6)
EBITDA	516.1	393.2	31.2	912.4	(43.4)
EBITDA Margin (%)	11.9	12.7	-	15.6	-
Other Income	7.5	7.9	(4.2)	8.2	(8.4)
Interest	168.6	178.7	(5.7)	123.7	36.2
Depreciation	107.5	67.5	59.2	100.2	7.3
Profit Before Tax	247.6	154.9	59.9	696.7	(64.5)
Tax	87.8	49.5		168.9	
Tax Rate (%)	35.5	32.0		24.2	
Reported PAT	159.8	105.3	51.7	527.9	(69.7)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	15,062	17,030	19,724	22,522
% yoy change	14.7	13.1	15.8	14.2
Raw material cost	9,485	10,908	12,446	14,234
Employee expenses	500	732	828	935
Other expenses	2,885	2,930	3,531	4,054
Total operating expenditure	12,870	14,569	16,805	19,223
EBITDA	2,192	2,460	2,919	3,299
EBIDTA margin (%)	14.6	14.4	14.8	14.7
Depreciation	241	315	335	349
EBIT	1,951	2,145	2,585	2,950
Other income	52	31	33	34
Interest costs	570	611	515	440
PBT	1,433	1,565	2,102	2,545
Taxes	482	450	694	814
Tax rate (%)	33.6	28.8	33.0	32.0
PAT	951	1,115	1,408	1,730
% yoy change	6.7	17.2	26.3	22.9
EPS	9.3	10.9	13.8	16.9

Balance Sheet

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Liabilities				
Share capital	102	102	102	102
Reserves & Surplus	3,712	4,841	6,075	7,630
Total shareholder's funds	3,815	4,943	6,177	7,733
Secured loans	1,997	1,780	997	1,012
Unsecured loans	3,652	3,304	3,334	2,719
Total borrowings	5,649	5,085	4,331	3,731
Deferred tax liability	315	391	391	391
Capital employed	9,778	10,419	10,899	11,855
Assets				
Gross Block	4,856	5,961	6,311	6,586
Accumulated Depreciation	1,004	1,319	1,653	2,003
Net Block	3,852	4,642	4,658	4,584
Capital Work in Progress	399	144	400	500
Inventories	2,500	3,682	3,784	4,109
Sundry Debtors	3,724	3,730	3,793	3,883
Cash and Bank	498	249	223	654
Loans and Advances	929	863	986	1,126
Total Current Assets	7,651	8,524	8,787	9,772
Current Liabilities & Provisions:				
Current liabilities	2,124	2,891	2,946	3,001
Capital Deployed	9,778	10,419	10,899	11,855

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	1,433	1,565	2,102	2,545
Depreciation	241	315	335	349
Interest provided	570	611	515	440
Other non-cash adjustments	13	263	-	-
Operating cash flow before WC	2,257	2,755	2,952	3,334
Change in working capital	2,401	354	234	500
Tax Paid	482	450	694	814
Operating cash flow	(625)	1,951	2,024	2,020
FCF	(1,551)	1,101	1,418	1,645
Capex	926	850	606	375
Investing cash flow	(926)	(850)	(606)	(375)
Issue/repayment of debt	2,216	(564)	(754)	(600)
Dividends paid	158	174	174	174
Interest paid	(570)	(611)	(515)	(440)
Financing cash flow	1,488	(1,350)	(1,443)	(1,215)
Opening cash balance	561	498	249	223
Net change in cash	(63)	(249)	(26)	430
Closing cash balance	498	249	223	654

Key Ratios

Y/E March	FY16	FY17E	FY18E	FY19E
EBITDA margins (%)	14.6	14.4	14.8	14.7
PBT margins (%)	9.5	9.2	10.7	11.3
PAT margins (%)	6.3	6.5	7.1	7.7
ROCE (%)	20.5	20.9	24.0	25.2
RONW (%)	24.9	22.6	22.8	22.4
Debt/Equity Ratio	1.5	1.0	0.7	0.5
EPS	9.3	10.9	13.8	16.9
Book Value	37.3	48.3	60.4	75.6
DPS	1.4	1.6	1.6	1.6

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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