

Previous Rating: Buy

Current Rating: Buy

Recovery in margins Headwinds Likely to Abate

CMP (Rs)	66.2
Target Price(Rs)	135
Upside (%)	103.7
Previous Target (Rs)	121
Share Holding (%)	31 st March, 2019
Promoter	71.9
Institutions	15.5
Others	12.6
Total	100.0
Avg Vol (6m) (000)	14.1
FV	1
Beta	1.01
Mcap (Rs Mn)	6,797
52 week H/L	190/ 48.7
Bloomberg/Reuters	SKIPPER IN / SKIP.BO
Group	B / S&P BSE SmallCap
Sensex/Nifty	39,750/ 11,929
ABS (%)	BSE Sensex Skipper
3 M	10.8 7.6
1 Yr	13.0 (61.2)

4QFY19 result highlights:

Revenue: Skipper 4QFY19 revenue reported 27% Y-o-Y/ 0.3% Q-o-Q drop to Rs.4.33 bn. Engineering business dropped 23% Y-o-Y / 1.1% Q-o-Q basis respectively to Rs.3.8 bn. Polymer business revenue growth disappointed again with 54% Y-o-Y decline but up 5% Q-o-Q respectively to Rs.347 mn. Infrastructure segment reported revenues of Rs.191 mn down 26% Y-o-Y but up 7% Q-o-Q. Reasons for drop in revenues as per management are:

- § Consciously slowed down supplies to the customer unwilling to give secured payment terms;
- § Slower Project Execution; Sites not ready for want of approvals;
- § Lack of short term orders in market

EBITDA: EBITDA fell by 49% Y-o-Y but grew by 31% Q-o-Q to Rs.551 mn while EBITDA margin was 12.7% Vs 18.3% Y-o-Y/ 9.7% Q-o-Q.

- § Engineering EBITDA margin was 13.3% (Vs 20.4% Y-o-Y/ 7.0% Q-o-Q) due to sustained high prices of RM (steel & zinc) and lower margins in EPC.
- § Polymer EBITDA margin was 5.0% (Vs 9.1% Y-o-Y/ 1.0% Q-o-Q).
- § Infrastructure EBITDA margin was 1.6% (Vs 13.6% Y-o-Y/ -0.1% Q-o-Q).
- § Due to reduction of revenues in all businesses, fixed overheads were not optimally absorbed leading to reduction in profitability.

Net profit: Net profit fell by 64% Y-o-Y/ up by 175% Q-o-Q to Rs.178 mn while PAT margin was 4.1% Vs 8.3% Y-o-Y/ 1.5% Q-o-Q.

- § This is after accounting for Rs.151 mn of forex gain.
- § Depreciation was lower by ~28% Y-o-Y/ ~11% Q-o-Q due to Ind AS
- § Finance costs were higher by 33% Y-o-Y but lower by 8% Q-o-Q. Skipper has resorted to increase in working capital borrowings this year.

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FY19 Annual result highlights :

Revenue: Skipper FY19 revenue reported ~10% Y-o-Y drop to Rs.18.7 bn. Engineering business dropped ~7% Y-o-Y basis to Rs.16.5 bn. Polymer business revenue growth disappointing again with 26% Y-o-Y decline to Rs.1.6 bn. Infrastructure segment reported revenues of Rs.658 mn down 23% Y-o-Y.

EBITDA: EBITDA fell by ~31% Y-o-Y to Rs.2.0 bn while EBITDA margin contracted to 10.8% Vs 14.1% Y-o-Y. The drop in EBITDA was observed in all 3 business segments.

Net profit: Net profit fell to Rs.312 mn down 74% Y-o-Y. Although, Depreciation was lower by ~18%, net profit fell due to lower business growth and higher operating expenses.

Outlook and Valuation

Multiple headwinds like higher share of fixed price contracts in engineering division coupled with high metal prices and continued poor performance of polymer and infra divisions resulted into fall in lower profitability in FY 2019. The management is confident that most of the headwinds will abate in FY 20 due to a stable government. We also expect transmission capex to revive in a big way and skippers effort to derisk PGCIL business will start paying off soon. Healthy order book of Rs 24.5 bn (1.50x FY19 Engg sales) gives good revenue visibility. We retain "Buy" rating on the stock valuing it at 7.7x FY21E giving us a target price of Rs.135/- per share.

Rs mn	Revenues	EBITDAM(%)	PAT	EPS	PE (x)	PBV (x)	EV/EBITDA (x)	RoCE (%)	RoE (%)
FY17	16,646	13.2%	1,242	12.1	5.2	1.2	4.7	26.1	23.4
FY18	20,737	13.4%	1,178	11.5	5.5	1.0	4.0	24.0	18.6
FY19E	18,709	9.7%	312	3.0	20.9	1.0	6.2	12.3	4.8
FY20E	23,756	12.8%	1,319	12.8	5.0	0.9	3.7	22.0	17.4
FY21E	27,900	13.3%	1,800	17.5	3.6	0.7	2.1	12.7	10.8

Quarterly/ Annual Performance

INR in Mn	4QFY19	4QFY18	Y-o-Y (%)	3QFY19	Q-o-Q (%)	FY19	FY18	Y-o-Y (%)
Total Revenue	4,334	5,929	-26.90	4,348	-0.33	18,709	20,737	-9.78
Raw Material	2,751	3,416	-19.47	3,007	-8.50	12,640	13,246	-4.57
Other expenses	915	1,190	-23.05	690	32.64	3,236	3,644	-11.20
Employee Cost	117	237	-50.83	230	-49.20	817	934	-12.54
Total Expenditure	3,783	4,843	-21.89	3,926	-3.65	16,693	17,824	-6.34
EBITDA	551	1,086	-49.25	422	30.59	2,016	2,914	-30.81
Depreciation	82	113	-28.04	85	-4.21	379	459	-17.51
EBIT	469	972	-51.72	337	39.40	1,637	2,455	-33.30
Finance cost	250	239	4.63	235	6.56	1,016	784	29.51
Other Income	4	8	-54.14	3	4.35	14	22	-37.71
Exceptional & forex Items	0	0		0		(205)	112	
PBT	223	741	-69.95	105	111.63	430	1,804	-76.17
Tax	45	247	-81.83	41	10.61	118	626	-81.20
PAT	178	493	-64.00	65	175.21	312	1,178	-73.50
Adj EPS	2	5	-64.00	1	175.21	3	12	-73.50
No of shares	102	102		102		102	102	

% of Total Revenue	4QFY19	4QFY18	3QFY19	FY19	FY18
Raw Material	63.5%	57.6%	69.1%	67.6%	63.9%
Other expense	21.1%	20.1%	15.9%	17.3%	17.6%
Employee Cost	2.7%	4.0%	5.3%	4.4%	4.5%
Total Expenditure	87.3%	81.7%	90.3%	89.2%	85.9%
EBITDA	12.7%	18.3%	9.7%	10.8%	14.1%
Other Income	0.1%	0.1%	0.1%	0.1%	0.1%
PAT	4.1%	8.3%	1.5%	1.7%	5.7%
Tax	20.2%	33.4%	38.6%	27.4%	34.7%

Segmental Performance

INR in Mn	4QFY19	4QFY18	Y-o-Y (%)	3QFY19	Q-o-Q (%)	FY19	FY18	Y-o-Y (%)
Revenues								
Engineering	3,796	4,924	-22.90	3,839	-1.13	16,452	18,072	-8.96
Polymers	347	748	-53.56	331	4.98	1,598	2,149	-25.63
Infrastructure projects	191	257	-25.76	178	7.19	658	855	-23.04
Total Revenue	4,334	5,929	-26.90	4,348	-0.33	18,709	21,076	-11.23
INR in Mn	4QFY19	4QFY18	Y-o-Y (%)	3QFY19	Q-o-Q (%)	FY19	FY18	Y-o-Y (%)
EBIDTA (without forex gain/ loss)								
Engineering	506	1,003	-49.49	268	89.31	1,779	2,439	-27.09
Margin %	13.3%	20.4%		7.0%		10.8%	13.5%	
Polymers	17	68	-74.52	3	424.24	33	203	-83.74
Margin %	5.0%	9.1%		1.0%		2.1%	9.4%	
Infrastructure projects	3	35	-91.40	(0)	-1600.00	29	107	-73.08
Margin %	1.6%	13.6%		-0.1%		4.4%	12.5%	
Overall EBITDA	527	1,105	-52.35	271	94.64	1,840	2,749	-33.06
Overall EBITDA margin (%)	12.2%	18.6%		6.2%		9.8%	13.0%	
INR in Mn	4QFY19	4QFY18	Y-o-Y (%)	3QFY19	Q-o-Q (%)	FY19	FY18	Y-o-Y (%)
EBIT								
Engineering	519	964	-46.09	419	23.87	1,720	2,648	-35.03
Margin %	13.7%	19.6%		10.9%		10.5%	14.7%	
Polymers	2	56	-97.17	(11)	-114.22	(28)	151	-118.41
Margin %	0.5%	7.5%		-3.4%		-1.7%	7.0%	
Infrastructure projects	2	35	-93.47	(1)	-562.00	26	108	-75.90
Margin %	1.2%	13.8%		-0.3%		4.0%	12.6%	
Overall EBIT before unallocable items	523	1,055	-50.38	408	28.35	1,719	2,907	-40.88
Overall EBIT margin (%)	12.1%	17.8%		9.4%		9.2%	13.8%	
	4QFY19	4QFY18		3QFY19		FY19	FY18	
% to sales								
Engineering	87.6%	83.0%		88.3%		87.9%	85.7%	
Polymers	8.0%	12.6%		7.6%		8.5%	10.2%	
Infrastructure projects	4.4%	4.3%		4.1%		3.5%	4.1%	
% to EBIT								
Engineering	99.3%	91.4%		102.8%		100.1%	91.1%	
Polymers	0.3%	5.3%		-2.7%		-1.6%	5.2%	
Infrastructure projects	0.4%	3.4%		-0.1%		1.5%	3.7%	

Management Call Update

- § Domestic T&D remained subdued in FY 2019 on account of lower orders from PGCIL and other private players. However, the management is expecting a rebound in orders post the election verdict.
- § Engineering capacity utilization remained at ~80%. However management is expecting increase in the capacity utilization in FY2020 to >90%.
- § Non-T&D vertical (railway and telecom) along with international T&D vertical have shown good progress as management continues to de-risk its dependence on the domestic T&D.
- § The company is focusing on diversifying its revenue in railway, telecom and exports, in order to de-risk the domestic T&D business
- § Debt in the books stood at Rs.477.3 crore, at D/E of 0.7x, which increased due to working capital requirement.
- § Current Order book is of around Rs.2,500 crore which is ~1.5x FY 2019 Engineering revenue. Out of these orders, ~70% are variable contracts with escalation/ de-escalation clauses.
- § With regards to the demerger of the polymer business, the management stated that they reconsidered the proposal and decided to withdraw it.

Revision in Target Price

Notwithstanding the company's decision to withdraw demerger of the polymer business into a separate entity, we continue valuing the core businesses and polymer business separately.

Accordingly, we have used EV/EBITDA based on FY21E estimates and arrive at SOTP valuation of Rs.121. The Company has garnered new orders during the quarter for engineering business and its current order book stands at Rs.24,600 mn which gives us revenue visibility of 1.33x FY19 for engineering business.

Polymer division would continue in the company and the management is focusing on enhancing the sales and capacity rationalization.

Segments	Sales FY21 Rs mn	EBITDAM% %	EBITDA Rs mn	EV multiple xs	Total Value
Engineering	24,663	12.0%	2,960	6.0	17,757
Polymers	2,360	5.0%	118	4.0	472
Infra	877	1.0%	9	5.0	44
Total					18,273
Less: Debt					4,613
Add: cash					176
Proposed market cap					13,836
No of Equity shares					103
Value per share					135
CMP					66.2
Upside potential					103.7%
Core business valuation (Rs mn)					13,364
Core value per share (Rs)					130
Polymer valuation (rs mn)					472
Core value per share (Rs)					5
Total value per share (Rs)					135

Financial Summary

Income statement (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Total revenues	16,646	20,737	18,709	23,756	27,900
% growth	10.5%	24.6%	-9.8%	27.0%	17.4%
Operating expenses	(14,445)	(17,967)	(16,898)	(20,707)	(24,196)
EBITDA	2,201	2,770	1,811	3,049	3,704
% growth	-8.1%	25.8%	-34.6%	68.4%	21.5%
Depreciation	(316)	(459)	(379)	(470)	(490)
EBIT	1,886	2,311	1,432	2,579	3,215
Interest	(676)	(793)	(1,016)	(729)	(724)
Other Income	558	298	14	178	279
Exceptional items	(1)	(12)	(0)	-	-
PBT	1,767	1,804	430	2,029	2,770
Tax	(525)	(626)	(118)	(710)	(969)
PAT	1,242	1,178	312	1,319	1,800
EPS	12.1	11.5	3.0	12.8	17.5
% growth	30.6%	-5.4%	-73.5%	322.7%	36.5%

Cash flow (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Profit before tax	1,767	1,804	430	2,029	2,770
Depreciation	316	459	379	470	490
Change in working capital	(283)	(2,177)	(469)	(1,384)	(1,582)
Total tax paid	(452)	(476)	(118)	(710)	(969)
Others	413	1,194	1,016	729	724
Cash flow from operation (a)	1,760	804	1,238	1,133	1,432
Capital expenditure	(939)	(499)	(550)	(300)	(250)
Change in investments	117	67	-	-	-
Others	30	14	-	-	-
Cash flow from investing (b)	(791)	(419)	(550)	(300)	(250)
Free cash flow (a+b)	969	386	688	833	1,182
Change in Equity / Preference	-	27	0.1	-	-
Debt raised/(repaid)	(257)	564	1,567	168	(230)
Dividend (incl. tax)	(172)	(191)	(41)	(218)	(270)
Others	(671)	(793)	(1,016)	(729)	(724)
Cash flow from financing (c)	(1,100)	(392)	510	(778)	(1,224)
Net chg in cash (a+b+c)	(132)	(7)	1,198	55	(42)

Balance Sheet (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	102	103	103	103	103
Share Options outstanding	28	47	-	-	-
Reserves & Surplus	5,191	6,223	6,383	7,484	9,015
Total Networth	5,321	6,373	6,486	7,587	9,117
Total Debt	4,154	4,613	4,773	4,941	4,711
Other non-current liabilities	651	588	626	626	626
Other current liability	3,782	5,861	4,642	5,354	6,133
Total Liabilities	13,909	17,435	16,528	18,508	20,588
Net Fixed Assets	5,112	5,224	5,229	5,060	4,820
Investments	-	-	89	89	89
Long term advance & Other NCA	164	38	25	25	25
Debtors and Inventory	7,404	10,787	10,290	12,195	14,387
(A) Cash & current investment	249	176	109	163	121
(B) Other current assets	979	1,210	786	976	1,147
Total Assets	13,909	17,435	16,528	18,508	20,588

Ratio analysis	FY17	FY18	FY19	FY20E	FY21E
EBIDTA margin (%)	13.2	13.4	9.7	12.8	13.3
PAT margin (%)	7.5	5.7	1.7	5.6	6.5
ROCE (%)	26.1	24.0	12.3	22.0	12.7
ROE (%)	23.4	18.6	4.8	17.4	10.8
Asset Turnover	3.3	4.0	3.6	4.7	5.8
Inventory days	123	155	154	150	150
Receivable days	82	91	96	90	90
Payable days	97	135	101	100	100
Debt to equity	0.8	0.7	0.7	0.7	0.5

Valuation parameters	FY17	FY18	FY19	FY20E	FY21E
EPS	12.1	11.5	3.0	12.8	17.5
P/E (x)	5.2	5.5	20.9	5.0	3.6
EV/ EBIDTA (x)	4.7	4.0	6.2	3.7	2.1
EV/ Sales (x)	0.6	0.5	0.6	0.5	0.3
P/BV (x)	1.2	1.0	1.0	0.9	0.7

Stock rating (1 year target scale)

<0%	- Sell
0-10%	- Reduce
10-30%	- Accumulate
>30%	- Buy

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