

Skipper

Refer to important disclosures at the end of this report

Stable performance; Retain BUY

- Skipper's operational performance was broadly in line with our expectations. Revenue increased by 5% yoy on the back of steady growth in Engineering Products (EP) (+5.9% yoy) and Polymer Products (PP) (+9.3% yoy). While EBITDA margin increased by 42bps yoy to 18.3%, the PAT declined by 15% yoy owing to 76% yoy increase in finance cost.
- Aggregate order inflows (FY18) in EP stood at Rs21bn, while the order backlog stood at Rs26bn – spread across PGCIL (44%), SEB's (44%) and Exports (12%). The company has maintained its guidance in EP segment - Revenue growth of ~15% with EBIDTAM of ~13-14%.
- In PP segment, though FY18 performance was affected by demonetisation and GST-related disruptions, the company is guiding for ~35-40% revenue growth with EBIDTAM of ~8-9%.
- Management commentary indicates that going forward the finance cost is expected to rise in line with higher turnover due to higher LC discounting / Bank Guarantee charges. We have cut FY19/20E EPS by 7%/5%. Maintain BUY with a Target Price (TP) of Rs279 (SoTP-based).

- Steady performance:** Skipper reported Q4FY18 revenue of Rs5.9bn (+5% yoy). While the gross margin expanded by 912bps yoy to 42.4%, the EBIDTAM increased by 42bps to 18.3%. EBIDTA increased by 7.5% yoy to Rs1bn but the PAT declined by 15% yoy to Rs493, impacted by 76% yoy increase in finance cost to Rs239mn. Revenue in the EP segment increased by 5.9% yoy to Rs4.9bn and the EBITM improved by 245bps to 19.6%. Revenue in the PP segment grew by 9.3% yoy to Rs748mn while the EBITM declined by 37bps to 7.5%.
- Maintain BUY:** Capacity utilisation in the EP segment stood at ~90% in FY18. The company has recently added 35,000MT of incremental capacity and is well-poised to post revenue growth of ~15-20%, backed by a strong order book of ~Rs26bn (1.5x FY18 EP revenue) and a steady order pipeline. The focus remains on diversification of the product portfolio and to cash in on the upcoming opportunities in Railways, Telecom and Solar. Skipper has recently received approvals from Indian Railways for the supply of overhead wiring support structures - the addressable market is ~US\$2bn for the next 3-4 years. The company has recently won a small EPC order of ~Rs160mn in railway electrification (RE) and going forward, the endeavour would be to actively bid for more RE projects. In the PP segment, Skipper has appointed Vector Consulting to help optimise sales and distribution operations while it grows at a rapid pace of ~40%+ over the next few years. The JV with MetzerPlas - Israeli company of micro-irrigation products & pipelines is expected to commence operations during the latter part of FY19. Going forward, Skipper expects financial charges to increase in line with the increasing turnover of the EP segment. While the finance cost / sales ratio has been gradually declining from a high of 5 (FY12-14) to 3.8 in FY18, we expect the same to stabilise at 3 in FY20. We have trimmed FY19/20E EPS by 7%/5%. We maintain BUY with revised TP of Rs279 (SoTP based on FY20E earnings).

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	15,062	16,646	20,737	25,633	31,974
EBITDA	2,192	2,722	3,025	3,645	4,477
EBITDA Margin (%)	14.6	16.4	14.6	14.2	14.0
APAT	951	1,242	1,178	1,544	2,079
EPS (Rs)	9.3	12.1	11.5	15.0	20.3
EPS (% chg)	6.7	30.6	(5.4)	31.1	34.7
ROE (%)	27.7	27.2	20.1	21.9	24.0
P/E (x)	19.4	14.8	15.7	12.0	8.9
EV/EBITDA (x)	10.2	8.2	7.6	6.3	5.2
P/BV (x)	4.8	3.5	2.9	2.4	1.9

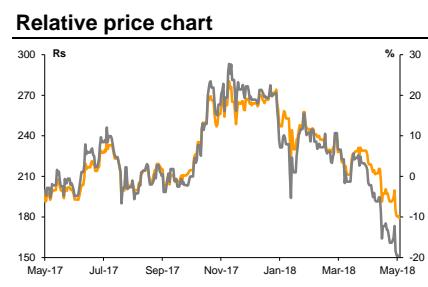
Source: Company, Emkay Research

CMP	Target Price
Rs 180 as of (May 21, 2018)	Rs 279 (▼) 12 months
Rating	Upside
BUY (■)	55.2 %

Change in Estimates		
EPS Chg FY19E/FY20E (%)	(6.8)/(4.7)	
Target Price change (%)	(6.0)	
Target Period (Months)	12	
Previous Reco	BUY	
Emkay vs Consensus		
EPS Estimates		
	FY19E	FY20E
Emkay	15.0	20.3
Consensus	14.7	18.9
Mean Consensus TP (12M)	Rs 297	
Stock Details		
Bloomberg Code	SKIPPER IN	
Face Value (Rs)	1	
Shares outstanding (mn)	103	
52 Week H/L	293 / 170	
M Cap (Rs bn/USD bn)	18 / 0.27	
Daily Avg Volume (nos.)	1,13,270	
Daily Avg Turnover (US\$ mn)	0.4	

Shareholding Pattern Mar '18				
	70.2%	6.2%	11.0%	12.7%
Promoters				
FII				
DII				
Public and Others				

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(20)	(27)	(30)	(11)
Rel. to Nifty	(21)	(28)	(32)	(21)



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

John Perinchery

john.perinchery@emkayglobal.com

+91 22 66121374

Nilesh Soni

nilesh.soni@emkayglobal.com

+91 22 66121262

Exhibit 1: Actual V/s estimates for Q4FY18

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	5,929	5,212	6,119	14	(3)	Higher-than-expected revenue in EP segment
EBITDA	1,086	809	809	34	34	
EBITDA, margin	18.3%	15.5%	13.2%	279bps	509bps	Better-than-expected margins in EP segment
PAT	493	492	516	0	(4)	Higher finance cost impacts profitability

Source: Company, Emkay Research

Exhibit 2: Quarterly Financials - Standalone

Rs mn	Q4FY18	Q4FY17	Q3FY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Revenues	5,929	5,644	5,664	5.0	4.7	16,646	20,737	24.6
Material cost	3,416	3,767	3,902	(9.3)	(12.5)	10,908	13,246	21.4
as % of sales	57.6	66.7	68.9	-912 bps	-1127 bps	65.5	63.9	-165 bps
Employee Cost	237	206	236	15.1	0.7	745	934	25.4
as % of sales	4.0	3.7	4.2	35 bps	-16 bps	4.5	4.5	3 bps
Other expenditure	1,190	661	786	79.9	51.4	2,271	3,532	55.5
as % of sales	20.1	11.7	13.9	835 bps	620 bps	13.6	17.0	339 bps
Total expenditure	4,843	4,634	4,923	4.5	(1.6)	13,924	17,712	27.2
EBITDA	1,086	1,010	741	7.5	46.6	2,722	3,025	11.1
Depreciation	113	100	118	13.2	(3.5)	316	459	45.4
EBIT	972	910	623	6.9	56.0	2,406	2,566	6.6
Other Income	8	8	3	(5.4)	137.9	32	22	(30.6)
Interest	239	136	176	76.0	35.8	671	784	16.9
PBT	741	782	450	(5.3)	64.5	1,767	1,804	2.1
Taxes	247	201	158	23.3	56.3	525	626	19.3
Reported PAT	493	582	292	(15.1)	69.0	1,242	1,178	(5.2)
Adjusted EPS	4.8	5.7	2.9	(15.1)	69.0	12.1	11.5	(5.2)

Margins (%)			bps	bps		bps
Gross Margins	42.4	33.3	31.1	912	1,127	34.5
EBIDTAM	18.3	17.9	13.1	42	524	16.4
EBITM	16.4	16.1	11.0	28	540	14.5
PBTM	12.5	13.9	7.9	(136)	455	10.6
PATM	8.2	10.2	5.1	(197)	310	7.3
Effective Tax rate	33.4	25.7	35.1	773	(176)	29.7
						34.7
						501

Source: Company, Emkay Research

Exhibit 3: Segmental performance - Standalone

Rs in mn	Q4FY18	Q4FY17	Q3FY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Segment Revenue								
Engineering Products	4,924	5,052	4,863	(2.5)	1.2	15,034	18,072	20.2
PVC Products	748	745	540	0.4	38.6	2,132	2,149	0.8
Infrastructure Projects	257	309	261	(16.9)	(1.6)	805	855	6.2
Total	5,929	6,106	5,664	(2.9)	4.7	17,972	21,076	17.3
Less : inter segment revenue	-	-	-	-	-	-	-	-
Total	5,929	6,106	5,664	(2.9)	4.7	17,972	21,076	17.3
Segment Results								
Engineering Products	964	865	639	11.4	50.9	2,336	2,648	13.4
PVC Products	56	58	36	(4.3)	55.1	166	151	(9.0)
Infrastructure Projects	35	44	32	(19.8)	10.4	114	108	(5.5)
Total	1,055	967	707	9.0	49.2	2,616	2,907	11.1
Less- Unall (Exp)	83	57	84	43.6	(1.3)	209	340	62.6
Add Other Income	8	8	3	(5.4)	137.9	32	22	(30.6)
Less- Interest Exp	239	136	176	76.0	35.8	671	784	16.9
Other Exceptional Item	-	-	-	-	-	-	-	-
PBT	741	782	450	(5.3)	64.5	1,767	1,804	2.1
Segment Margins (%)								
				bps	bps			bps
Engineering Products	19.6	17.1	13.1	245	644	15.5	14.7	-88
PVC Products	7.5	7.8	6.7	-37	80	7.8	7.0	-75
Infrastructure Projects	13.8	14.3	12.3	-51	150	14.2	12.6	-157
Average	17.8	15.8	12.5	195	531	14.6	13.8	-76

Source: Company, Emkay Research

Exhibit 4: Revision in earnings estimates

Y/E, Mar (Rs. mn)	FY19E			FY20E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	25,063	25,633	2%	31,095	31,974	3%
EBITDA	3,292	3,645	11%	4,071	4,477	10%
EBITDAM (%)	13.1%	14.2%	108 bps	13.1%	14.0%	91 bps
APAT	1,650	1,589	-4%	2,177	2,079	-5%
EPS (Rs)	16.1	15.5	-4%	21.3	20.3	-5%

Source: Company, Emkay Research

Exhibit 5: Segment PAT (FY2020)

Rs mn	Engineering	Infrastructure	Polymer	Other Inc	Total
EBIT	3,538	218	452	42	4,250
Less: Interest	711	75	169	-	956
Corporate expenditure	242	26	58	-	325
PBT	2,586	117	225	42	2,970
Less: Tax	776	35	68	13	891
PAT	1,810	82	158	29	2,079

Source: Company, Emkay Research

Exhibit 6: Valuation summary (FY2020)

Valuation Summary (FY20)	PAT	P/E (x)	Valuation	Per share
Engineering	1,810	13.5	24,436	238
Infrastructure	82	13.0	1,063	10
Polymer	158	20.0	3,151	31
Total Value			28,651	
No of Shares			103	
Target Price			279	

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	15,062	16,646	20,737	25,633	31,974
Expenditure	12,870	13,924	17,712	21,989	27,496
EBITDA	2,192	2,722	3,025	3,645	4,477
Depreciation	241	316	459	541	594
EBIT	1,951	2,406	2,566	3,103	3,883
Other Income	52	32	22	32	42
Interest expenses	570	671	784	865	956
PBT	1,433	1,767	1,804	2,270	2,970
Tax	482	525	626	726	891
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	951	1,242	1,178	1,544	2,079
Adjusted PAT	951	1,242	1,178	1,544	2,079

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	102	102	103	103	103
Reserves & surplus	3,713	5,219	6,270	7,616	9,498
Net worth	3,815	5,321	6,373	7,719	9,600
Minority Interest	0	0	0	0	0
Loan Funds	4,504	4,154	4,613	5,000	5,000
Net deferred tax liability	315	626	539	539	539
Total Liabilities	8,634	10,101	11,525	13,257	15,139
Net block	3,852	4,968	5,209	5,417	5,573
Investment	0	0	0	0	0
Current Assets	7,651	8,796	12,211	14,254	17,337
Cash & bank balance	498	249	176	365	321
Other Current Assets	0	1,095	1,204	1,204	1,204
Current liabilities & Provision	3,268	3,808	5,911	6,429	7,787
Net current assets	4,383	4,989	6,300	7,824	9,550
Misc. exp	0	0	0	0	0
Total Assets	8,634	10,101	11,525	13,257	15,139

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,381	1,736	1,782	2,238	2,928
Other Non-Cash items	62	20	(87)	0	0
Chg in working cap	(1,208)	(544)	(1,472)	(1,335)	(1,769)
Operating Cashflow	651	1,752	927	1,583	1,818
Capital expenditure	(946)	(1,176)	(571)	(750)	(750)
Free Cash Flow	(295)	576	356	833	1,068
Investments	0	0	0	0	0
Other Investing Cash Flow	(25)	347	0	0	0
Investing Cashflow	(919)	(797)	(550)	(718)	(708)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	1,073	(350)	459	387	0
Dividend paid (incl tax)	(160)	(172)	(204)	(197)	(197)
Other Financing Cash Flow	(215)	107	77	0	0
Financing Cashflow	128	(1,087)	(451)	(676)	(1,153)
Net chg in cash	(140)	(132)	(74)	189	(43)
Opening cash position	561	498	249	176	365
Closing cash position	498	249	176	365	321

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	14.6	16.4	14.6	14.2	14.0
EBIT Margin	13.0	14.5	12.4	12.1	12.1
Effective Tax Rate	33.6	29.7	34.7	32.0	30.0
Net Margin	6.3	7.5	5.7	6.0	6.5
ROCE	26.1	26.0	23.9	25.3	27.6
ROE	27.7	27.2	20.1	21.9	24.0
RoIC	28.1	27.6	24.4	25.6	28.1

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	9.3	12.1	11.5	15.0	20.3
CEPS	11.6	15.2	16.0	20.3	26.1
BVPS	37.3	52.0	62.1	75.2	93.6
DPS	1.4	1.6	1.7	1.6	1.6

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	19.4	14.8	15.7	12.0	8.9
P/CEPS	15.5	11.8	11.3	8.9	6.9
P/BV	4.8	3.5	2.9	2.4	1.9
EV / Sales	1.5	1.3	1.1	0.9	0.7
EV / EBITDA	10.2	8.2	7.6	6.3	5.2
Dividend Yield (%)	0.8	0.9	0.9	0.9	0.9

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	1.1	0.7	0.7	0.6	0.5
Net Debt/EBITDA	1.8	1.4	1.5	1.3	1.0
Working Cap Cycle (days)	94.1	103.9	107.8	106.2	105.3

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	14.7	10.5	24.6	23.6	24.7
EBITDA	1.9	24.2	11.1	20.5	22.8
EBIT	1.0	23.3	6.6	20.9	25.1
PAT	6.7	30.6	(5.2)	31.1	34.7

Quarterly (Rs mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenue	5,644	3,988	5,156	5,664	5,929
EBITDA	1,010	516	683	741	1,086
EBITDA Margin (%)	17.9	12.9	13.2	13.1	18.3
PAT	582	160	232	292	493
EPS (Rs)	5.7	1.6	2.3	2.9	4.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoters	70.4	70.4	70.4	70.4	70.2
FII's	1.5	2.0	2.4	6.2	6.2
DII's	10.8	11.0	11.5	9.9	11.0
Public and Others	17.2	16.5	15.8	13.6	12.7

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-Mar-18	229	297	12m	Buy	John Perinchery
06-Feb-18	238	297	12m	Buy	John Perinchery
30-Jan-18	221	327	12m	Buy	John Perinchery
14-Dec-17	259	327	12m	Buy	John Perinchery
27-Nov-17	277	327	12m	Buy	John Perinchery
18-Oct-17	214	282	12m	Buy	John Perinchery

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research