

**Skipper Ltd.**

INR 153

**"Domestic Transmission capex play"****NOT RATED**

Skipper Ltd. reported revenue of INR 3681 Mn up 29.7% YoY against INR 2958 Mn. EBITDA grew 44.55% YoY to 429 Mn compared to INR 297 Mn and margin expanded by 105 bps YoY to 12.2%. Reported PAT decreased by 14.17% YoY to INR 303 Mn from INR 353 Mn on account of higher forex gains last year amounting to INR 420 Mn compared to INR 181 Mn in the current quarter.

Skipper Ltd. founded in 1981, is among India's top three Power Transmission Tower manufacturing companies. It is also engaged in the production of poles-monopoles and PVC pipes, etc. The company has complete control over the value chain from angles to tower production to fasteners to EPC. Transmission and distribution segment, PVC pipes segment and Infrastructure segment accounts for 89%, 7% and 4% of revenues respectively. Skipper is promoted by Kolkata based S K Bansal Group.

**Transmission business:** Skipper is among the top 3 players (10-15% market share) in the transmission tower business with a capacity of 1,75,000 MTPA. The company operates in 400 KV - 1200 KV segment, which has entry barriers like prequalification, quality & infrastructure related criteria. 54% of India's transmission line network is expected to be in 400 KV and above by the end of 12th Plan. The company generates majority of its revenue from PGCIL. The company operates efficiently at 90% capacity and have order book of INR 24500 Mn providing visibility of revenue. In domestic market, revenues from PGCIL are ~80%. Export order comprises around 45% of the total order book, which will lead to increase its share in coming years from present revenue share of ~4%. The company has a long-term supply contract with transmission system operators (TSO) in Latin America. The advantages of working in latin American markets are that market still hold large potential for growth and margins are better than other regions. All this improves revenue assurance and establishes its presence in this fast-growing market, which should generate new orders in future. We also believe pick up in PGCIL orders envisaged good growth for the company in T&D segment. The company plans to increase ~20-25% capacity every year.

**Pole & Monopoles Business:** Skipper is also present in the Poles & monopoles segment and ranks amongst India's top 4 Pole manufacturing companies and a pioneer in the production of Monopoles, which are self-supporting tubular structure carrying transmission lines and also find extensive usage in telecom capacities and 4G network expansions. The company have designing and manufacturing monopoles tie-up with Ramboll of Denmark and manufactures for the entire basket of products in steel poles from swaged to octagonal to conical to high masts. This segment is expected to witness uptick and provides large opportunity to grow.

**PVC business:** Skipper manufactures PVC pipes and has captured 10% market share in eastern India, through network of around 500 dealers. The company has partnered with global giants like Sekisui of Japan for CPVC pipes and Wavin of Netherlands for plumbing solutions, which we believe will help in developing this business segment. The company has aggressive growth plans of increasing its revenues 10x from PVC pipes by FY19. In PVC segment company is eying one third of overall revenue from 7% currently. The company is expanding its geographical reach to become PAN India player. Capacity expansion in PVC Pipe segment to be completed in second half of this year. The two plants would be operational in third quarter with capacity addition of 20000 tpa and has planned further capacity expansion of 55,000 tpa in FY17 and FY18. IN PVC segment company is eying one third of overall revenue from 10% currently. The Gujarat plant will work on 80% automation hence it will be world class and technology advanced in the industry. The margins are expected to be superior than its peers.

**Key Financials:**

Particulars	FY11	FY12	FY13	FY14	FY15
Net Sales	5,601	8,235	10,137	11,652	14,572
EBITDA	504	729	903	1,182	2,254
PAT	176	99	187	269	892
EPS	2.50	1.08	1.92	2.63	8.71
OPM (%)	9.51	8.94	9.05	10.33	15.71
NPM (%)	3.15	1.20	1.85	2.31	6.12

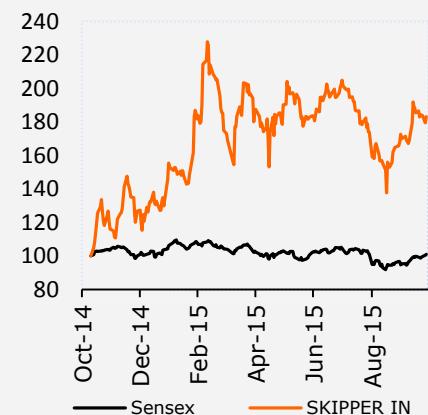
Source: Company, KRChoksey Research

**Market Data**

Shares outs (Mn)	102.31
Equity Cap (Mn)	102.31
Mkt Cap (INR Mn)	15,623
52 Wk H/L (INR)	200/85
Avg Vol(3M avg K)	28.53
Face Value (INR)	1
Bloomberg Code	SKIPPER IN

**Market Info:**

SENSEX	26,590
NIFTY	8,060

**Share Price Performance****Share Holding pattern (%)**

Particulars	Sept1 5	Jun15	Mar14
Promoters	72.38	72.38	72.38
FII	-	-	-
DII	0.02	-	-
Others	27.6	27.62	27.62
Total	100	100	100

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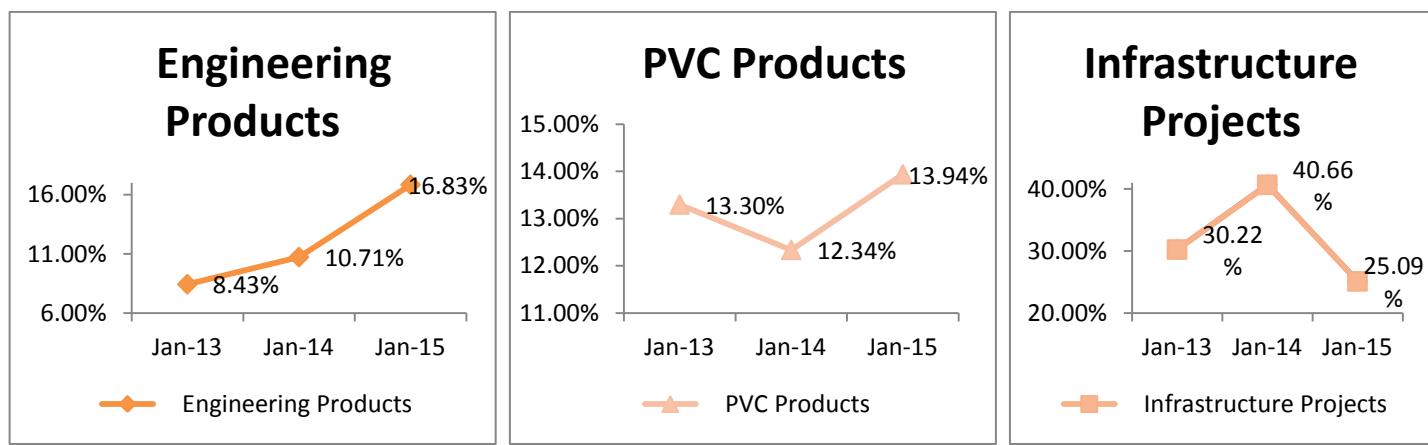
**Capex to cater further growth:** Indian PVC market is growing at 7-8% and expected to be INR 200 bn market in next 3-4 years. PVC pipe demand will be driven by various government initiatives like Pradhan Mantri Krishi Sinchai Yojna, Swachh Bharat Abhiyan, Housing for all. Skipper plans to expand its PVC pipes capacity multifold to 100,000 tpa from present 20,000 tpa by FY18. The company is adopting asset light model by leasing the land, in turn reducing capex requirement by 40%, faster entry in new markets and improved return ratios. The company plans to keep the debt at same level despite massive capacity expansion, which will help in improving return ratios.

**Cost Advantage due to, location and integrated business model:** Skipper has complete value chain control from angles to tower production to fasteners to EPC resulting in control of about 80% of the cost on any tower line. The company has done backward integration through angle rolling which is the main raw material for towers and is also horizontally integrated with manufacturing of fasteners and accessories for towers. The plant location in Eastern India allows lowest cost access to major raw material, steel billets, which is mainly procured from SAIL's Durgapur plant, less than 200 km away. This results in transportation costs of INR 450-500 /MT, against the industry average of INR 2,000. This logistic cost works out to a cost benefit of around 200 bps.

**Valuation & Outlook:** We believe with increased investment plans of government, favorable regulatory policies, increased private sector participation provides opportunities to the company to scale-up the business. On a consolidated basis we are expecting EBITDA Margin to stabilize between 13-14%. The company generates higher margins compared to peers due to location advantage and integrated business model. Robust order book provides revenue visibility in T&D business; and multifold expansion in PVC business on a pan India level provides scalable growth opportunities, outcome of which will be seen in coming years. We remain positive on Skipper Ltd. and are working on detail numbers. At CMP of INR 153, the company trades at P/E of 16.91x its trailing EPS of INR 9.05.

**Key concall highlights:**

- The company has placed bids worth INR 20,000 Mn on domestic tenders, outcome of which is expected in next two quarters.
- Previously announced PVC pipes capacity expansion from 12000 tonnes to 40000 tonnes continues to progress well and two plants are expected to be completed by Q3FY16 and one by Q4FY16.
- The management is confident of maintaining the current EBITDA margins of ~14%. On the transmission business front, the company will be increasing the capacity by FY end to 2,00,000 MTPA from present 1,75,000 MTPA.
- The PVC plant of Ahmedabad, Gujarat has commenced production, and the company is adding more dealers in Gujarat, Maharashtra, Madhya Pradesh. This is in line with company's strategy to become national player.
- Rating agency CARE has upgraded the rating of the company from A- to A+. Rating improvement will enable the company to reduce its finance cost and also the company plans to use money market instrument, Commercial Paper, which will further reduce the finance cost. The board has sanctioned amount of INR 500 Mn for raising funds through Commercial Papers.

**Segment Margins:**

## BUSINESS OVERVIEW

### Company Brief

Skipper Ltd. founded in 1981, is among India's top three Power Transmission Tower manufacturing companies. It is also engaged in the production of poles-monopoles and PVC pipes, etc. Transmission and distribution segment, PVC pipes segment and Infrastructure segment accounts for 89%, 7% and 4% of revenues respectively. Skipper is promoted by Kolkata based S K Bansal Group.

### Business Model

Skipper Ltd. is among India's top three Power Transmission Tower manufacturing companies. The company has complete control over the value chain from angles to tower production to fasteners to EPC. In EPC, the scope of work includes process design including basic& detail designing, engineering, supplying towers, procuring essential accessories and commissioning of the projects. In PVC business the company is a regional player having 10% market share in eastern India. The company is in the middle of massive expansion plan of increasing PVC pipes capacity by 10x.

### Strategic Positioning

Skipper Ltd. is among top three manufacturers of transmission towers in the country. As a leading manufacturer and supplier of transmission towers, the company has forward integrated into EPC projects in the power T&D space and has emerged as a turnkey solutions provider. The company generates majority of its revenue from PGCIL and all manufacturing units of the company are approved by PGCIL. The majorly markets its PVC products in eastern India and has 10% market share in the region. The company has aggressive growth plans in PVC pipes segment and plans to become PAN India player. The company has partnered with global giants like Sekisui of Japan for CPVC pipes and Wavin of Netherlands for plumbing solutions.

### Competitive Edge

- The Location of the company allows it to source the raw materials at lower cost, and enable it to save cost logistics cost by 400-500 bps.
- The company has integrated operations which provides the company scope to register better margins.
- The power transmission sector in India is expected to see ~\$15bn of contract awards over the next one year, and the ordering activity shall be driven majorly by PGCIL. All manufacturing facilities of the company have been approved by PGCIL.
- The company has International Collaborations with leading companies, which will give the company technological advantage over its peers.
- With 175,000 MTPA the company has the capacity coupled with experience to execute large orders.

### Financial Structure

The company has debt of INR 3829, which the company plans to keep at same level despite massive capacity expansion as company is planning to fund expansion via internal accruals. The D/E ratio of the company has reduced from 2.1 to 1.3 in 3 years.

### Key Competitors

KEC International, Kalpataru Power Transmission.

### Industry Revenue Drivers

The Indian government, 'Power by 2020' will require huge transmission investment which has been lagging Generation investment, for the past several years. PVC pipe demand will be driven by various government initiatives like Pradhan Mantri Krishi Sinchai Yojna, swachh bharat abhiyan, housing for all. There is huge unsatisfied demand for irrigation in India and the demand for quality PVC pipes remains unabated.

### Share holder Value Proposition

Skipper is leader in power transmission tower manufacturing in India having huge growth potential and focusing on increasing exports. The company has integrated operations and enjoys location advantage, leading to higher margins by ~500bps. Also, the company has strong presence in manufacturing monopoles. In PVC business, the company is adding multifold capacity with an asset light model, targeting exponential growth. Order book remains strong at INR 24000 Mn providing revenue visibility.

**Profit & Loss Account:**

<b>Particulars ( INR in Millions)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Net Sales	5,041	7,412	9,003	10,415	13,128
Raw Material Consumed	4,412	5,361	7,194	7,870	8,551
Power & Fuel Cost	158	297	348	519	527
Employee Cost	106	154	173	242	305
Total Expenditure	4,537	6,684	8,100	9,233	10,874
Operating Profit (Excl OI)	504	729	903	1,182	2,254
Other Income	28	8	14	21	36
Interest	214	473	514	685	704
Depreciation	66	117	126	151	220
Profit Before Tax	253	146	278	367	1,366
Provision for Tax	76	47	90	98	474
Profit After Tax	176	99	187	269	892
Earnings Per Share	2.5	1.1	1.9	2.6	8.7

**Balance sheet:**

<b>Particulars ( INR in Millions)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Share Capital	360	360	97	102	102
Total Reserves	1,211	1,275	1,963	2,209	2,936
Shareholder's Funds	1,572	1,635	2,061	2,312	3,039
Long-Term Borrowings			1,986		
Secured Loans	876	1,061	1,289	1,416	799
Unsecured Loans	495	711	697	891	908
Deferred Tax Assets / Liabilities	94	111	181	218	265
Other Long Term Liabilities		7	16	10	
Total Non-Current Liabilities	1,466	1,890	2,183	2,534	1,972
Trade Payables	250	1,120	1,162	1,563	2,415
Other Current Liabilities	225	791	461	626	1,277
Short Term Borrowings	1,935	1,222	1,990	1,755	1,724
Short Term Provisions	13	35	11	25	210
Total Current Liabilities	2,423	3,168	3,625	3,969	5,627
Total Liabilities	5,460	6,694	7,869	8,815	10,637
Net Block	2,081	2,828	3,262	3,385	3,513
Capital Work in Progress	335	20	36	83	35
Long Term Loans & Advances		7		21	31
Other Non Current Assets	9	0	9	0	0
Total Non-Current Assets	2,424	2,855	3,307	3,489	3,578
Inventories	1,760	1,689	2,378	2,290	2,282
Sundry Debtors	921	1,449	1,549	2,318	3,758
Cash and Bank	69	86	128	263	561
Short Term Loans and Advances	286	614	507	455	458
Total Current Assets	3,036	3,839	4,562	5,326	7,059
Total Assets	5,460	6,694	7,869	8,815	10,637

**Cashflow:**

<b>Particulars ( INR in Millions)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Profit Before Tax	253	146	278	367	1,366
Changes In working Capital	-1,365	575	-956	-85	-121
Tax Paid	-43	-43	-47	-48	-338
Cash From Operating Activities	-1,124	787	-619	1,007	1,738
Cash Flow from Investing Activities	-644	-550	-559	-316	-316
Cash from Financing Activities	1,756	-220	1,220	-794	-1,160
Net Cash Inflow / Outflow	-12	17	42	-103	262
Opening Cash & Cash Equivalents	81	69	86	128	25
Closing Cash & Cash Equivalent	69	86	128	25	286

**Ratios:**

<b>Particulars ( INR in Millions)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Earnings Per Share (Rs)	2.50	1.08	1.92	2.63	8.71
DPS(Rs)	0.15	0.10	0.10	0.15	1.30
Book Value (Rs)	17.64	18.54	20.75	22.22	29.32
Tax Rate(%)	30.16	32.26	32.59	26.71	34.71
Dividend Pay Out Ratio(%)	5.99	9.30	5.21	5.70	14.92
PBIDTM (%)	9.51	8.94	9.05	10.33	15.71
EBITM (%)	8.33	7.52	7.81	9.03	14.20
Pre Tax Margin(%)	4.51	1.77	2.74	3.15	9.37
PATM (%)	3.15	1.20	1.85	2.31	6.12
ROA (%)	3.92	1.63	2.57	3.23	9.17
ROE (%)	15.26	7.76	11.24	12.53	33.82
ROCE (%)	11.52	12.55	14.27	16.27	30.67
Asset Turnover(x)	1.24	1.36	1.39	1.40	1.50
Inventory Turnover(x)	4.33	4.77	4.99	4.99	6.37
Debtors Turnover(x)	7.33	6.95	6.76	6.03	4.80
Fixed Asset Turnover (x)	3.03	3.07	2.99	3.06	3.54
Receivable days	49.77	52.53	53.97	60.57	76.09
Inventory Days	84.37	76.45	73.22	73.11	57.26
Payable days	17.90	39.02	51.28	54.36	67.92
Total Debt/Equity(x)	2.29	2.03	2.10	1.93	1.28
Current Ratio(x)	1.25	1.21	1.26	1.34	1.25
Interest Cover(x)	2.18	1.31	1.54	1.54	2.94

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