

BUY

Sector: Industrials
Sector View: Positive

Analyst:
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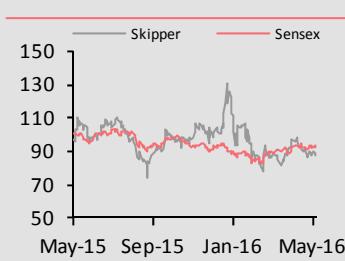
Stock Data

Sensex:	25,487
52 Week h/l (Rs):	220 / 116
Market cap (Rs cr):	1,437
6m Avg t/o (Rs cr):	5
Bloomberg code:	SKIPPER IB
BSE code:	538562
NSE code:	SKIPPER
FV (Re):	1
Div yield (%):	1

Prices as on May 19, 2016

Shareholding Pattern

	Sep-15	Dec-15	Mar-16
Promoters	72.4	72.4	72.4
FII+DII	0.0	0.0	3.4
Others	27.6	27.6	24.3

Share Price Trend

Skipper Ltd

Earnings growth momentum to accelerate

CMP: Rs141 1-yr Target: Rs200 Upside: 41.8%

- ✧ Skipper's topline growth of 6% yoy to Rs. 530cr was quite lower than our estimate of Rs. 580cr on account of slower execution and lower commodity prices
- ✧ OPM expands 12bps yoy to 13.9% even though contribution from low margin PVC segment was higher. Operating profit of Rs. 73cr was also lower than expectations due to a miss in topline
- ✧ Order book of Rs. 2,240cr was lower than our expectations due to slower conversion of L1 orders. The company is favorably placed in orders worth Rs. 200cr. Exports order in FY16 have been quite weak
- ✧ PAT grew 19.2% yoy in Q4 FY16, lower than estimate. FY16 pre-exceptional PAT growth stood at 65% yoy
- ✧ The company has bid for unopened bids worth Rs. 1,200cr and expects major conversion in FY17.
- ✧ Valuations at 9.5x FY18E P/E are attractive considering the strong earnings growth expected from the company. We maintain our Buy with a target price of Rs. 200

Result table

(Rs cr)	Q4 FY16	Q4 FY15	% yoy	Q3 FY16	% qoq
Net sales	530	500	6.0	372	42.5
Material costs	(341)	(362)	(5.6)	(232)	47.0
Personnel costs	(15)	(9)	74.9	(12)	25.3
Other overheads	(100)	(61)	64.1	(78)	28.1
Operating profit	73	69	6.9	49	48.3
OPM (%)	13.9	13.7	12 bps	13.3	54 bps
Depreciation	(6)	(6)	(0.1)	(6)	3.1
Interest	(16)	(15)	1.3	(15)	1.5
Other income	1	0	1,271.3	1	27.9
PBT	53	47	11.8	29	82.1
Tax	(17)	(17)	(1.7)	(10)	61.8
Effective tax rate (%)	31.4	35.7		35.3	
Adjusted PAT	36	30	19.2	19	93.1
Adj. PAT margin (%)	6.8	6.1	76 bps	5.0	179 bps
Reported PAT	36	30	20.2	19	93.1
Ann. EPS (Rs) ex except. Items	14.1	11.7	20.2	7.3	93.1

Source: Company, India Infoline Research

May 19, 2016

Result Update

Slower execution leads to a miss in topline

Skipper's Q4 FY16 revenue growth of 6% yoy was lower than our estimate due to slower execution and weak order inflow during the year. The management mentioned that lower commodity prices have led to a miss in topline growth. For FY16, revenue growth stood at 17.2% yoy despite the company registering a volume growth of 16.2% in engineering products and 81% yoy growth in PVC business. On a segmental basis, engineering products business grew by 5.6% yoy to Rs. 466cr. PVC products business jumped 28.6% yoy on the back of rampup of capacity at Ahmedabad. The company is raising its PVC manufacturing capacity pan India and is also introducing new products. Infrastructure segment revenues were quite weak due to lower order book. The management expects engineering business to grow at 20% pa over the next two years on the back of higher capacity and strong capex in the power T&D space.

Margins expansion continues

Margin expansion continues in Q4 FY16 as the company managed to report an OPM of 13.9%, higher by 12bps yoy. This was witnessed eventhough the share of low margin PVC segment was higher on a yoy basis. We believe the decline in commodity prices has led to an expansion in OPM over the last three quarters. However, due to a miss in topline growth overall operating profit of Rs. 73cr was lower than estimate. On a segmental basis, adjusted EBIT margin in the engineering segment expanded from 12.8% in Q4 FY15 to 14.7%. In the polymer segment EBIT margin decline from 12.8% in Q4 FY15 to 9.9% in Q4 FY16 due to costs involved in ramping up of new capacities. Lower utilization also led to some margin compression. The company is targeting to increase margins from the polymer business to 14% from the current 10.8% in FY16. This would be achieved by volume growth and superior product mix. Infrastructure segment EBIT margins remained low due to slower execution at 5.5%.

Cost Analysis

As a % of net sales	Q4 FY16	Q4 FY15	bps yoy	Q3 FY16	bps qoq
Material costs	64.4	72.4	(792)	62.5	197
Personnel costs	2.9	1.7	113	3.3	(40)
Other overheads	18.8	12.2	667	21.0	(212)
Total costs	86.1	86.3	(12)	86.7	(54)

Source: Company, India Infoline Research

Segmental analysis

As a % of net sales	Q4 FY16	Q4 FY15	% yoy	Q3 FY16	% qoq
Sales (Rs cr)					
Infrastructure Projects	8.1	15.2	(47.2)	7.4	9.0
Engineering Projects	465.9	441.3	5.6	327.2	42.4
PVC Projects	55.8	43.4	28.6	37.1	50.1
Total	529.7	499.9	6.0	371.8	42.5
EBIT (Rs cr)					
EMPS	0.4	1.3	(64.5)	1.4	(68.5)
EPS	67.5	97.0	(30.4)	48.1	40.1
UCP	5.5	5.5	(0.5)	3.8	45.6
Total	73.4	103.7	(29.2)	53.3	37.6
EBIT margins (%)					
in bps					
EMPS	5.5	8.2	-269 bps	19.1	-1356 bps
EPS	14.5	22.0	-749 bps	14.7	-24 bps
UCP	9.9	12.7	-288 bps	10.2	-30 bps
Total	13.9	20.7	-689 bps	14.3	-49 bps

Source: Company, India Infoline Research

Maintain Buy; earnings growth to remain strong

Skipper's earnings have almost tripled over the past three years following restructuring of its engineering division and focus on domestic T&D. A strategic alliance with South America's largest TSO has provided the company a big opportunity in the export market. We believe the company would be a major beneficiary of robust capex in the domestic T&D space. We believe that with an increase in the share of export orders, higher share of 400+KV towers, and lower commodity prices, the company would manage to report 30bps expansion in margins of the engineering products division over FY15-18E. Over FY15-18, we expect Skipper to register 21% revenue CAGR on the back of higher order inflows for the Engineering segment and ramp-up of new capacities in the PVC products division. We estimate 48% earnings CAGR over FY15-18, led by strong execution and higher share of exports coupled with lower input costs. We maintain our Buy recommendation on the stock with a target price of Rs. 200.

Financial summary

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	1,270	1,488	1,860	2,233
yoY growth (%)	22.0	17.2	25.0	20.1
Operating profit	173	201	252	308
OPM (%)	13.6	13.5	13.6	13.8
Reported PAT	47	77	116	152
yoY growth (%)	89	95	116	152
	231.0	7.1	21.2	31.6
EPS (Rs)				
P/E (x)	4.6	7.6	11.3	14.9
P/BV (x)	31.0	18.7	12.5	9.5
EV/EBITDA (x)	4.7	3.8	3.0	2.4
Debt/Equity (x)	10.2	9.1	7.4	6.0
ROE (%)	1.3	1.2	1.0	0.7
ROCE (%)	17.4	22.6	27.1	28.5

Source: Company, India Infoline Research

'Best Broker of the Year' – by Zee Business for contribution to broking

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Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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