

Stock Update

Book out due to challenging business environment

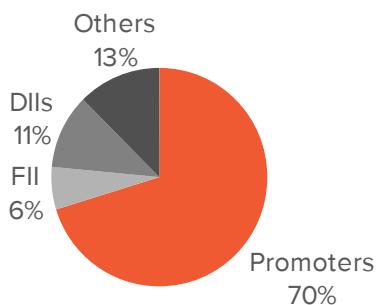
Skipper

Reco: Book Out | CMP: Rs120

Company details

Market cap:	Rs1,225 cr
52-week high/low:	Rs293/119
NSE volume: (No of shares)	88,062
BSE code:	538562
NSE code:	SKIPPER
Sharekhan code:	SKIPPER
Free float: (No of shares)	3.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-18.3	-30.3	-44.3	-34.6
Relative to Sensex	-22.9	-35.7	-50.6	-45.9

Key points

- Operational performance impacted by increased input cost despite higher revenue: During Q1FY2019, Skipper reported topline growth of 20% y-o-y to Rs. 479 crore. Growth was driven by growth in the engineering and PVC segments. The engineering segment grew by 11% y-o-y to Rs. 404 crore, driven mainly by volume growth from the T&D segment and healthy growth from the non-T&D segment such as telecom, towers, railways and solar structures. The polymers segment, which was impacted by GST last year, saw significant growth of 30% y-o-y to Rs. 56 crore mainly due to penetration into newer markets and rationalisation of distribution channels. The infrastructure segment's revenue declined due to poor execution, while PBIT margin improved during the quarter. Blended OPM fell by 355 BPS to 9.4% due to a 602 BPS decline in gross margin. Higher incidence of fixed cost in T&D projects coupled with increased penetration cost in newer markets for the polymer segment impacted margins. This was reflective in lower PBIT margin of both engineering (decline 209 BPS to 9.9%) and PVC (PBIT loss) segments. Hence, operating profit declined by 13% y-o-y to Rs. 45 crore. Poor operational performance coupled with rise in interest cost (elongation of WC pushed up debt levels) led to adjusted PAT declining by 72% y-o-y to Rs. 4 crore.

- Traction seen in the engineering segment across geographies: Skipper has secured orders worth Rs. 225 crore from Powergrid Corporation (PGCIL), State Electricity Boards (SEB), telecom and solar companies and for various supplies across Africa, South America and South East Asia. Management expects order inflow growth to remain strong and gain further pace with increased participation opportunities from PGCIL, SEBs and TBCB projects-Green energy corridor in the domestic market, while it sees traction in the overseas market of Panama and Paraguay, where it has recently won orders. The strategy of the company to enrich and diversify its product portfolio will also enable it to tap growing opportunities in the sector such as railways, solar and telecom. Moreover, Skipper recently cleared a SIRIM QAS International Sdn. Bhd. audit, which enables the company to export to the Malaysian market. The recent devaluation in rupee has made Skipper competitive in export markets and is expected to bring more opportunities. The current order book of ~Rs. 2,500 crore has a mix of PGCIL, Private and

SEBs and exports standing at 45:40:15 at the end of Q1FY2019 and provides revenue visibility of 1.2x on trailing basis.

- ❖ **Muted margin scenario in the near future for the polymer segment:** Skipper has appointed Vector Consultancy to streamline its supply chain as well as establish stronger ties with its channel partners. Structural and strategic changes have been implemented, which were visible in margin contraction in Q1FY2019. With the advent of this move, management expects margins to remain contracted with a positive bias over the next one year.
- ❖ **Elongated NWC capital days led to rise in debt levels:** High inventory build-up on account of subsequent supply obligation and temporary increase in debtor collection led to rise in net working capital (NWC) days. However, management expects rationalisation of NWC in future and intends to maintain gross WC days

at 180 days and net WC days at 90 days at the end of FY2019. The stretch in NWC has led to rise in debt levels at the end of Q1FY2019, which is expected to remain at elevated levels. The company intends to spend Rs. 50 crore-60 crore of capex, which would be mostly used in the engineering segment.

- ❖ **Book out due to challenging business environment:** We have cut our earnings estimates by 15%/17% for FY2019E/FY2020E, respectively, given the bleak margin scenario for the polymer business and muted margins in the engineering segment due to rise in commodity prices. Moreover, we have also factored the rise in interest cost due to increased interest rates and rising debt levels (stretch in WC cycle), which has led to our earnings cut. Considering the challenging business environment and bleak margin scenario, we close our call and recommend Book Out on the stock. The stock has corrected nearly ~25% post Q1FY2019 results.

Results

Particulars	Q1FY19	Q1FY18	YoY (%)	Q4FY18	Rs cr QoQ (%)
Net Sales	479	399	20.0	593	(19.3)
Net raw material	325	247	31.7	342	(4.8)
Employee cost	23	21	11.7	24	(1.1)
Other exp.	85	79	7.3	119	(28.6)
Operating profit	45	52	(12.9)	109	(58.6)
Other income	0	1	(56.9)	1	(58.7)
Interest	27	17	62.6	24	14.5
Depreciation	12	11	7.2	11	1.5
PBT	6	25	(74.2)	74	(91.4)
Tax	2	9	(78.6)	25	(92.4)
PAT	4	16	(71.8)	49	(90.9)
Adj. PAT	4	16	(71.8)	49	(90.9)
Adj. EPS (Rs.)	0.4	1.6	(71.8)	5	(90.9)
			BPS		BPS
OPM	9.4	12.9	(355)	18.3	(892)
NPM	0.9	4.0	(307)	8.3	(738)
Tax rate	29.5	35.5	(601)	33.4	(392)

Valuation	FY16	FY17	FY18	FY19E	FY20E	Rs cr
Particulars						
Net sales	1,506	1,703	2,074	2,426	2,794	
Growth (YoY) %	17.6	13.1	21.8	17.0	15.2	
Operating Profit	219	246	303	303	349	
OPM (%)	14.6	14.5	14.6	12.5	12.5	
Reported PAT	95	112	118	107	127	
Adjusted PAT	83	74	100	104	124	
Adjusted EPS	8.1	7.2	9.7	10.1	12.1	
Growth (YoY) %	148.0	(10.8)	34.6	3.9	19.4	
PER	14.8	16.6	12.4	11.9	10.0	
P/B	3.2	2.5	1.9	1.8	1.6	
EV/EBIDTA	7.3	6.5	5.5	5.6	4.9	
DE (x)	1.2	0.8	0.7	0.8	0.7	
Div Yield (%)	1.2	-	1.4	1.4	1.7	
RoCE (%)	26.1	24.0	24.6	21.1	22.1	
RoE (%)	24.2	16.9	17.6	15.8	17.0	
RoIC (%)	26.1	24.0	24.6	21.1	22.1	

Segmental performance	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Rs cr
Particulars						
Engineering Products	404	365	10.7	492	(17.9)	
Infrastructure Projects	19	24	(23.7)	26	(27.9)	
PVC products	56	43	29.5	75	(25.0)	
Total Revenue	479	433	10.6	593	(19.3)	
PBIT						
Engineering Products	40	44	(8.5)	96	(58.3)	
PBIT margin %	9.9	12.0	(209)	19.6	(963)	
Infrastructure Projects	2	3	(19.2)	4	(32.7)	
PBIT margin %	12.9	12.1	72	13.8	(91)	
PVC products	(1)	3	(124.1)	6	(113.3)	
PBIT margin %	(1.3)	7.1	(846)	7.5	(879)	
Total PBIT	42	50	(16.3)	105	(60.3)	
Unallocated	8	8	(3.8)	7	7.8	
PBT	6	25	(74.2)	74	(91.4)	
Blended PBITM %	8.7	11.6	(281)	17.8	(905)	

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