

# Skipper - Accumulate

## Growth priced in

Skipper's Q4 FY17 results were weak due to lower execution in engineering business. Lower carry over order book and high base of Q4 FY16 (export order execution) led to the miss. Margins too were impacted due to lower execution and lower proportion of higher margin export orders. After a weak order inflow in 9M FY17 of Rs.7.7bn, the company has managed to bag orders worth Rs.9bn since the end of Q3 FY17. The company has bid for orders worth Rs.13bn. It expects PGCIL to award orders worth Rs.100bn in N-E India in addition to the orders from private players that have won via TBCB route. The company has also seen improved traction in states such as Uttarakhand, UP, TN and Telangana. The company has entered into the new geographies of Botswana and Philippines and bagged orders worth Rs.1.2bn from these geographies. We have lowered our estimates factoring in lower margins in polymer business and slower growth in engineering business. We rollover our estimates to FY19 and upgrade our target price to 210. However, we believe valuations at 13.1x FY19E P/E largely discount the positives and downgrade the stock to accumulate.

### With strong book, focus would be on margins in FY18

Skipper is scaling up its PVC business steadily and it expects to see 50% yoy growth in FY18. The company has managed to increase its channel partners from 1,500 to 3,500 in the last one year. Margin expansion would be lower than expected due to lower utilization costs and spend on expanding reach. Infrastructure segment is witnessing robust performance both in terms of revenue growth and in margins. Management believes to achieve 15% revenue growth and 13% EBITDA margin in FY18. With strong order book, company's focus would be on maintaining and improving margins. Recent order wins have reduced concerns over revenue visibility over the next two years.



CMP (Rs) 197	12-mts Target (Rs) 210	Upside 6.8%
Stock data (As on May 15, 2017)		
Sensex:	30,322	
52 Week h/l (Rs):	201 / 125	
Market cap (Rs mn):	20,110	
Enterprise value (Rs mn):	24,020	
6m Avg t/o (Rs mn):	5.9	
FV (Rs):	1	
Div yield (%):	0.8	
Bloomberg code:	SKIPPER IB	
BSE code:	538562	
NSE code:	SKIPPER	
Stock performance		
Shareholding pattern (%)		
Promoter		70.4
FII+DII		12.4
Others		17.2

Figure 1: Result table

Y/e 31 Mar (Rs m)	Q4 FY17	Q4 FY16	% yoy	Q3 FY17	% qoq
Net sales	5,837	5,297	10.2	4,306	35.6
Material costs	(3,767)	(3,413)	10.4	(2,843)	32.5
Personnel costs	(192)	(152)	26.1	(193)	(0.3)
Other overheads	(966)	(998)	(3.2)	(700)	38.0
<b>Operating profit</b>	<b>912</b>	<b>734</b>	<b>24.3</b>	<b>570</b>	<b>60.0</b>
<b>OPM (%)</b>	<b>15.6</b>	<b>13.9</b>	<b>177 bps</b>	<b>13.2</b>	<b>238 bps</b>
Depreciation	(100)	(63)	58.5	(76)	31.7
Interest	(124)	(155)	(20.4)	(177)	(30.0)
Other income	8	11	(25.2)	8	3.1
<b>PBT</b>	<b>697</b>	<b>526</b>	<b>32.4</b>	<b>325</b>	<b>114.1</b>
Tax	(169)	(165)	2.2	(102)	65.6
<b>Reported PAT</b>	<b>528</b>	<b>361</b>	<b>46.2</b>	<b>223</b>	<b>136.2</b>

Source: Company, IIFL Research

**Figure 2: Cost Analysis**

As a % of net sales	Q4 FY17	Q4 FY16	bps yoy	Q3 FY17	bps qoq
Material costs	64.5	64.4	10	66.0	(149)
Personnel Costs	3.3	2.9	41	4.5	(118)
Other overheads	16.5	18.8	(228)	16.3	29
Total costs	84.4	86.1	(177)	86.8	(238)

Source: Company, IIFL Research

**Figure 3: Segmental results**

Y/e 31 Mar (Rs m)	Q4 FY17	Q4 FY16	% yoy	Q3 FY17	% qoq
Infrastructure Projects	315	81	290.8	265	18.8
Engineering Projects	4,828	4,659	3.6	3,571	35.2
PVC Projects	695	558	24.6	470	47.7
<b>Net Sales</b>	<b>5,837</b>	<b>5,297</b>	<b>10.2</b>	<b>4,306</b>	<b>35.6</b>

#### EBIT

Infrastructure Projects	45	4	903.2	35	25.6
Engineering Projects	773	675	14.6	466	65.7
PVC Projects	58	55	5.0	32	78.9
<b>Total</b>	<b>875</b>	<b>734</b>	<b>19.2</b>	<b>534</b>	<b>63.8</b>

#### EBIT Margins (%)

			bps yoy	bps qoq
Infrastructure Projects	14.2	5.5	864	13.4
Engineering Projects	16.0	14.5	153	13.1
PVC Projects	8.3	9.9	(155)	6.9
<b>Blended</b>	<b>15.0</b>	<b>13.9</b>	<b>114</b>	<b>12.4</b>
				<b>259</b>

Source: Company, IIFL Research

#### Conference call highlights

- Engineering segment grew 9% yoy to Rs.14bn in FY17. The growth was lower as the company received freight benefits on its exports in FY16. Exports share to the total revenue was less than 10% in FY17, compared to 40-45% last year. Capacities in this segment are running at an overall utilization levels of ~90%.
- PVC segment grew ~30% in FY17, below management's expectation of 50-60% growth. This was due to the impact of demonetization that led to lower growth in Q3 FY17, which is a seasonally strong quarter. Management has guided that this segment volume to grow by 50% in FY18. Post February, the business got back to normal with strong demand witnessed in March and April'17.
- Order book as of date stands strong at Rs.25.9bn, of which PGCIL orders account for 51%, domestic-others constitutes of 22% and Exports for 27%.
- The company has managed to bag order inflow of Rs.5bn in April '17, of which Rs.3.8bn were from domestic markets and the rest were from the newly entered geographies Botswana & Philippines.
  - Of the domestic order book, company received orders worth Rs.750mn for the supply of Telecom Poles. Management expects strong ordering to come from Telecom industry in the coming quarters.
  - The new markets of Botswana & Philippines are high growth area with strong ordering expected in transmission space. In order to lower concentration risk, management is looking to diversify its presence in African and South-east Asian countries.

- Strong ordering expected in the North East region would boost the company's revenue over the next two years. The company would gain major orders in this region due to the plant setup in Guwahati. Cross border projects would also be an opportunity for the company in addition to the capex by Power Grid and TBCB players.
- Q4 FY17 EBIT in the engineering segment was aided by a forex income of Rs.160mn. Excluding that, margins were lower on a yoy basis.
- Skipper incurred a capex of Rs.750mn in FY17. Management has guided for a capex of Rs.850mn in FY18, of which Rs.600mn would be spent on Engineering and polymer business and the rest Rs.250mn on tower testing.
- The company has reduced its debt in FY17 by Rs680mn even after incurring capex of Rs.750mn. Debtor days also reduced on a yoy basis and led to D/E improving to 0.89 from 1.24 at the end of FY16. Company has a target to reduce its debt by Rs.400mn in FY18.
- Tax rate in Q4 FY17 was lower, as the company availed a MAT entitlement of Rs.60mn. It has no carried forward MAT benefit to be availed.

**Figure 4: Financial summary**

Y/e 31 Mar (Rs m)	FY15	FY16	FY17	FY18E	FY19E
Revenues	12,702	15,062	17,030	19,693	22,654
yoY growth (%)	22.0	18.6	13.1	15.6	15.0
OPM (%)	13.6	14.6	14.4	14.2	14.3
Pre-exceptional PAT	466	951	1,115	1,255	1,530
Reported PAT	892	951	1,115	1,255	1,530
yoY growth (%)	231.0	6.7	17.2	12.5	21.9
EPS (Rs)	4.6	9.3	10.9	12.3	14.9
P/E (x)	43.2	21.1	18.0	16.0	13.1
Price/Book (x)	6.6	5.3	4.1	3.4	2.8
EV/EBITDA (x)	13.5	11.0	9.8	8.4	7.2
Debt/Equity (x)	1.3	1.2	0.8	0.7	0.5
RoE (%)	17.4	27.8	25.5	23.2	23.5

*Source: Company, IIFL Research*

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### Recommendation parameters for fundamental reports:

**Buy** = >15%+

**Accumulate** = 5% to 15%

**Reduce** = -10% to 5%

**Sell** = >-10%

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