

Institutional Equity Research

**Skipper**

Capital Goods | India

1QFY19 Result Update | August 13, 2018

CMP (Rs)	122
Upside/ (Downside) (%)	75
Bloomberg Ticker	SKIPPER IN
Market Cap. (Rs bn)	12.5
Free Float (%)	29.8
Shares O/S (mn)	102.3



Target Price: Rs214

## Muted Performance Continues; Valuation Attractive

Skipper has delivered a mixed performance in 1QFY19. While its net profit declined by 72% YoY to Rs45mn, its revenue – adjusted for Excise Duty – grew by 20% YoY to Rs4.7bn led by higher execution in Engineering Products business and strong growth in Polymer division. Looking ahead, we continue to believe that a sizeable order book, huge imminent opportunity and diversification into PVC business firmly place Skipper on a higher growth trajectory. Following sharp correction in stock price during last 3 months, the stock is available at attractive valuation.

**We maintain our BUY recommendation on the stock with a revised Target Price of Rs214 (from Rs240 earlier).**

### Engineering & Polymer Biz Aided Top-line Growth

Skipper's revenue – adjusted for Excise Duty – grew by 20% YoY owing to higher execution in Engineering Products business and strong growth in Polymer division. Revenue from the former segment – which accounts for 88.4% of total sales – grew 20% YoY to Rs4,041mn led by strong volume execution and rising share of non-T&D products i.e. telecom towers, railway and solar structure. Revenue from the latter segment – which accounts for 11.7% of total sales – grew by 46% YoY to Rs561mn. Entry into new territories and strong processes implemented by Vector Consultancy enabled Skipper in streamlining its supply chain and building stronger ties with channel partners. On the flip side, revenue from Infrastructure Products business declined by 23.7% YoY to Rs185mn on high base.

### PAT Declines on Lower Margins & Higher Interest

Skipper's EBITDA declined by 12.9% YoY to Rs450mn, while its EBITDA margin contracted by 355bps YoY to 9.4% led by fall in polymer margin to 1.2% in 1QFY19 (from 9.3% in 1QFY18) owing to execution of fixed-value engineering projects. Fall in Polymer market is attributable to increasing penetration cost in newer markets owing to increased brand building spend and dealer incentives. Skipper's PAT declined by 72% YoY to Rs45mn owing to 62% YoY rise in interest cost to Rs274mn on account of high inventory built-up led by subsequent supply obligation and temporary rise in debtor collection period.

### Outlook & Valuation

Looking ahead, we continue to believe that increased revenue visibility in T&D business on the back of robust order book and expansion into PVC business would aid Skipper to sustain healthy earnings profile. We expect margins pressure to continue in Polymer business in next 2-3 quarters. Trimming down our earnings estimate by 32% in FY20E on account of lower margins, **we maintain our BUY recommendation on the stock with a revised Target Price of Rs214 valuing at 17x FY20E earnings of Rs12.6/share.**

### Share price (%)

Share price (%)	1 mth	3 mth	12 mth
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Absolute performance	(23.7)	(37.4)	(42.4)
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Relative to Nifty	(27.3)	(43.2)	(62.1)
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### Shareholding Pattern (%)

Shareholding Pattern (%)	Mar'18	Jun'18
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Promoter	70.2	70.2
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Public	29.8	29.8
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### 1 Year Stock Price Performance



Note: \* CMP as on August 13, 2018

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E
Net sales	17,030	21,076	24,215	28,303
PAT	1,115	1,178	682	1,287
EPS (Rs)	10.9	11.5	6.7	12.6
PER (x)	11.2	10.6	18.3	9.7
EV/EBIDTA (x)	7.0	5.9	7.5	5.1
Book value (Rs/share)	52.0	62.3	67.1	77.9
P/BV (x)	2.3	2.0	1.8	1.6
ROCE	22.3	24.1	18.2	24.2
RONW	21.0	18.5	9.9	16.1

Source: Company, RSec Research

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### Order Book Continues to Remain Well-diversified

Skipper secured order worth Rs2.2bn for engineering products supply from PGCIL, SEBs and telecom companies and for various supplies across Africa, South America and South East Asia. Notably, its order book continues to remain well-diversified between PGCIL, domestic SEBs/private players and international clients. Its closing order book as of Jun'18-end stood at Rs25.0bn from PGCIL (45%), domestic private players/SEBs/telecom (40%) and exports (15%). The Management expects growth to remain strong and gain further momentum on the back of increased opportunities from PGCIL, SEBs, TBCB projects, renewable projects, exports and infrastructure push in the North East and Eastern India. Strategy of diversifying the product portfolio may enable Skipper to tap the growing opportunities in sectors like railways, solar and telecom, in our view.

### Risks to the View

- ▶ Lower-than-expected order inflows from PGCIL.
- ▶ Any significant delay in project execution.

### Exhibit 1: Quarterly Performance

(Rs mn)	1Q FY19	1Q FY18	YoY (%)	4Q FY18	QoQ (%)
<b>Net Sales</b>	<b>4,787</b>	<b>3,988</b>	<b>20.0</b>	<b>5,929</b>	<b>(19.3)</b>
Raw Material	3,253	2,470	31.7	3,417	(4.8)
% of Sales	68.0	61.9		57.6	
Employee Expenses	235	210	11.7	237	(1.1)
% of Sales	4.9	5.3		4.0	
Other Expenses	850	792	7.3	1,189	(28.5)
% of Sales	17.8	19.9		20.0	
Total Expenditure	4,337	3,472	24.9	4,843	(10.4)
<b>EBITDA</b>	<b>450</b>	<b>516</b>	<b>(12.9)</b>	<b>1,086</b>	<b>(58.6)</b>
EBITDA Margin (%)	9.4	12.9		18.3	
Other Income	3	8	(56.9)	8	(58.7)
Depreciation	115	107	7.2	113	1.5
EBIT	338	416	(18.8)	980	(65.5)
Interest	274	169	62.6	239	14.5
PBT	64	248	(74.2)	741	(91.4)
Tax	19	88	(78.6)	247	(92.4)
Tax rate (%)	29	35	(16.9)	33	(11.7)
<b>Reported PAT</b>	<b>45</b>	<b>160</b>	<b>(71.8)</b>	<b>493</b>	<b>(90.9)</b>
<b>EPS</b>	<b>0.4</b>	<b>1.6</b>	<b>(71.8)</b>	<b>4.8</b>	<b>(90.9)</b>

Source: Company, RSec Research

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**Exhibit 2: Segmental Revenues**

(Rs mn)	1Q FY19	1Q FY18	YoY (%)	4Q FY18	QoQ (%)
<b>Sales</b>	<b>4,787</b>	<b>4,327</b>	<b>10.6</b>	<b>5,929</b>	<b>(19.3)</b>
Engineering Products	4,041	3,651	10.7	4,924	(17.9)
Polymer Products	561	433	29.5	748	(25.0)
Infrastructure Projects	185	243	(23.7)	257	(27.9)
<b>EBIT</b>	<b>351</b>	<b>261</b>	<b>34.7</b>	<b>1,055</b>	<b>(66.7)</b>
Engineering Products	402	169	138.4	964	(58.3)
Polymer Products	(75)	4	NA	56	NA
Infrastructure Projects	24	88	(72.9)	35	(32.7)
<b>Margin (%)</b>	<b>7.3</b>	<b>6.0</b>	<b>131</b>	<b>17.8</b>	<b>(1,046)</b>
Engineering Products	9.9	4.6	533	19.6	(963)
Polymer Products	(13.3)	1.0	(1,427)	7.5	(2,075)
Infrastructure Projects	12.9	36.2	(2,337)	13.8	(91)

Source: Company, RSec Research

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**Profit & Loss Statement**

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>17,030</b>	<b>21,076</b>	<b>24,215</b>	<b>28,303</b>
% yoy change	13.1	23.8	14.9	16.9
RM cost	10,908	13,585	16,224	18,397
Employee expenses	732	934	1,005	1,189
Other expenses	2,930	3,532	4,625	5,321
<b>Total operating expenditure</b>	<b>14,569</b>	<b>18,051</b>	<b>21,854</b>	<b>24,907</b>
<b>EBIDTA</b>	<b>2,460</b>	<b>3,025</b>	<b>2,361</b>	<b>3,396</b>
Depreciation	315	459	462	488
<b>EBIT</b>	<b>2,145</b>	<b>2,566</b>	<b>1,899</b>	<b>2,909</b>
Other income	31	22	13	14
Interest costs	611	784	887	986
<b>PBT</b>	<b>1,565</b>	<b>1,804</b>	<b>1,025</b>	<b>1,936</b>
Taxes	450	626	343	649
Tax rate (%)	28.8	34.7	33.5	33.5
<b>Reported PAT</b>	<b>1,115</b>	<b>1,178</b>	<b>682</b>	<b>1,287</b>
% yoy change	17.2	5.6	(42.1)	88.9
<b>Reported EPS (Rs)</b>	<b>10.9</b>	<b>11.5</b>	<b>6.7</b>	<b>12.6</b>

**Balance Sheet**

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
<b>Liabilities</b>				
Share capital	102	102	102	102
Reserves & Surplus	5,219	6,270	6,767	7,869
<b>Total shareholder's funds</b>	<b>5,321</b>	<b>6,372</b>	<b>6,869</b>	<b>7,972</b>
Secured loans	1,754	1,667	1,735	1,715
Unsecured loans	3,291	3,904	3,812	3,765
<b>Total borrowings</b>	<b>5,044</b>	<b>5,571</b>	<b>5,547</b>	<b>5,480</b>
Deferred tax liability	651	588	588	588
<b>Capital employed</b>	<b>11,017</b>	<b>12,532</b>	<b>13,005</b>	<b>14,041</b>
<b>Assets</b>				
<b>Net Block</b>	<b>4,960</b>	<b>5,200</b>	<b>4,864</b>	<b>4,776</b>
Capital Work in Progress	144	16	125	185
<b>Net Current Assets:</b>				
Inventories	3,682	5,623	5,269	4,104
Sundry Debtors	3,722	5,164	5,045	6,290
Cash and Bank	249	176	287	791
Loans and Advances	1,152	1,256	969	1,274
<b>Total Current Assets</b>	<b>8,805</b>	<b>12,219</b>	<b>11,569</b>	<b>12,458</b>
<b>Current Liabilities &amp; Provisions:</b>				
Current liabilities	2,892	4,903	3,553	3,378
<b>Total current liabilities</b>	<b>2,892</b>	<b>4,903</b>	<b>3,553</b>	<b>3,378</b>
<b>Net Current Assets</b>	<b>5,913</b>	<b>7,316</b>	<b>8,016</b>	<b>9,080</b>
<b>Capital Deployed</b>	<b>11,017</b>	<b>12,532</b>	<b>13,005</b>	<b>14,041</b>

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**Cash Flow Statement**

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
PBT	1,565	1,804	1,025	1,936
Depreciation	315	459	462	488
Interest	611	784	887	986
Other adjustments	565	59		
<b>Oper cash flow before WC</b>	<b>3,057</b>	<b>3,106</b>	<b>2,374</b>	<b>3,410</b>
Change in working capital	299	1,539	589	560
Tax Paid	450	626	343	649
<b>Operating cash flow</b>	<b>2,308</b>	<b>941</b>	<b>1,442</b>	<b>2,202</b>
<b>FCF</b>	<b>1,141</b>	<b>369</b>	<b>1,207</b>	<b>1,742</b>
Capex	1,167	572	234	460
<b>Investing cash flow</b>	<b>(1,167)</b>	<b>(572)</b>	<b>(234)</b>	<b>(460)</b>
Issue/repayment of debt	(604)	526	(24)	(66)
Dividends paid	174	185	185	185
Interest paid	(611)	(784)	(887)	(986)
<b>Financing cash flow</b>	<b>(1,390)</b>	<b>(443)</b>	<b>(1,096)</b>	<b>(1,237)</b>
<b>Opening cash balance</b>	<b>498</b>	<b>249</b>	<b>176</b>	<b>287</b>
<b>Net change in cash</b>	<b>(249)</b>	<b>(74)</b>	<b>111</b>	<b>504</b>
<b>Closing cash balance</b>	<b>249</b>	<b>176</b>	<b>287</b>	<b>791</b>

**Key Ratio**

Y/E March	FY17	FY18	FY19E	FY20E
EBITDA margins (%)	14.4	14.4	9.7	12.0
PBT margins (%)	9.2	8.6	4.2	6.8
PAT margins (%)	6.5	5.6	2.8	4.5
ROCE (%)	22.3	24.1	18.2	24.2
RONW (%)	21.0	18.5	9.9	16.1
Debt/Equity Ratio (%)	0.9	0.9	0.8	0.7
PE (x)	11.2	10.6	18.3	9.7
PBV (x)	2.3	2.0	1.8	1.6
EV/EBIDTA (x)	7.0	5.9	7.5	5.1
EV/Sales (x)	1.0	0.8	0.7	0.6

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**Rating History**

Date	Reco	CMP	TP
18-May-18	BUY	180	315
8-Feb-18	BUY	249	340
24-Nov-17	BUY	262	289
6-Sep-17	BUY	216	254
9-Feb-17	BUY	155	187
11-Jan-17	BUY	155	187

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Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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