

INDUSTRY	CAPITAL GOODS		
CMP (As on 6 Sep 2017)	Rs 215		
Target Price	Rs 245		
Nifty	9,916		
Sensex	31,662		
KEY STOCK DATA			
Bloomberg	SKIPPER IN		
No. of Shares (mn)	102		
MCap (Rs bn) / (\$ mn)	22/344		
6m avg traded value (Rs mn)	31		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 240/125		
	3M	6M	12M
Absolute (%)	5.1	49.1	34.5
Relative (%)	3.6	40.1	25.2
SHAREHOLDING PATTERN (%)			
Promoters	70.41		
FIs & Local MFs	11.05		
FPIs	2.04		
Public & Others	16.5		
<i>Source : BSE</i>			

Ashutosh Mehta, ACA
ashutosh.mehta@hdfcsec.com
+91-22-6171-7314

On track

Skipper's 1QFY18 results came in ahead of our estimates on back of dispatches of undelivered inventory in the Engineering segment, held at the beginning of the quarter. Revenue grew 40% YoY led by growth in the Engineering segment (+42% YoY). Polymer segment registered a mere 3% growth on the back of GST transition. EBITDA margins stood at 12.9% (-90bps YoY). APAT grew 52% YoY to Rs 160mn. Order inflow stood at Rs 3.6bn, resulting in an order backlog of Rs 26.4bn (+10% YoY), providing comfort to our revenue estimates for FY18/19E.

Skipper benefits not only from the Power T&D spend but its low-cost integrated operation enables it to earn better margins/bid competitively. While GST impact was witnessed in the Polymer segment, the outlook looks promising with industry growth of ~15% and a shift from unorganised to organised. With ROEs consistently over 20%, valuations look attractive on a relative basis. Reiterate BUY with TP of Rs 245/share (15/15/25x Jun-19E EPS for Engineering / Infrastructure / Polymer business).

Financial Summary: Standalone

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	3,988	2,842	40	5,674	(30)	14,881	16,836	19,661	22,645	26,045
EBITDA	516	393	31	749	(31)	2,132	2,149	2,596	3,067	3,606
APAT	160	105	52	404	(60)	911	894	1,083	1,431	1,828
Diluted EPS (Rs)	1.6	1.0	52	3.9	(60)	8.9	8.7	10.6	14.0	17.8
P/E (x)						24.2	24.7	20.4	15.4	12.1
EV / EBITDA (x)						12.3	12.2	10.0	8.4	7.0
RoE (%)						26.6	20.4	20.1	22.1	23.1

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO>

Highlights of the quarter

- Polymer business revenues grew by a mere 3% on the back of GST transition (dealers hesitant to stock inventory). While restocking is underway, the mgt believes the complete GST effect to be mitigated only by 2QFY18 end.
- In the Engineering segment, international order inflows were witnessed from Kenya, Nigeria, Nepal and Bangladesh. While PGCIL ordering has slowed in the domestic market, ordering from SEBs (UP, Telangana) has gained traction. PGCIL share in closing OB now stands at 47% (vs. 51% as at FY17).
- The company has forayed into manufacturing of solar structures and will carry it out from its existing Uluberia plant. While trial productions are underway, the mgt plans to tie up with developers as against bidding for EPC contracts themselves.
- **Near term view:** We remain positive given strong earnings growth and attractive valuations. **BUY.**

Revenue grew 40% YoY led by strong volume execution in the Engineering segment (+42% YoY)

E/o item for 4QFY17 pertains to derivative gain on future contract amounting to Rs 124mn (adj for tax)

Higher contribution of export revenue in 1QFY18 (20% vs 12-15% YoY), resulted in higher freight / packaging charges in 1QFY18

Quarterly Financials Snapshot: Standalone

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17*	QoQ (%)
Net Sales	3,988	2,842	40	5,674	(30)
Material Expenses	2,470	1,771		3,767	
Employee Expenses	210	154		192	
Other Operating Expenses	792	524		966	
EBITDA	516	393	31	749	(31)
Depreciation	107	68		100	
Other Income	8	8		172	
Interest Cost	169	179		124	
PBT	248	155	60	697	(64)
Tax	88	50		169	
RPAT	160	105	52	528	(70)
EO Items (Adj For Tax)	-	-		(124)	
APAT	160	105	52	404	(60)

Source: Company, HDFC sec Inst Research

*As per I-GAAP

Margin Analysis: Standalone

	1QFY18	1QFY17	YoY (bps)	4QFY17*	QoQ (bps)
Material Expenses % Net Sales	61.9	62.3	(36)	66.4	(445)
Employee Expenses % Net Sales	5.3	5.4	(16)	3.4	188
Other Operating Expenses % Net Sales	19.9	18.4	141	17.0	283
EBITDA Margin (%)	12.9	13.8	(90)	13.2	(26)
Tax Rate (%)	35.5	32.0	349	24.2	1,124
APAT Margin (%)	4.0	3.7	30	7.1	(311)

Source: Company, HDFC sec Inst Research

Based on I-GAAP

Growth in the engineering segment was contributed by undelivered inventory as at FY17 end (Rs 500-550mn). The management maintains its FY18 revenue growth guidance of 15%.

In the international market, order inflows were witnessed from Kenya, Nigeria, Nepal and Bangladesh. In the domestic market, while PGCIL was muted, improved order inflows were witnessed from SEBs (UP and Telangana).

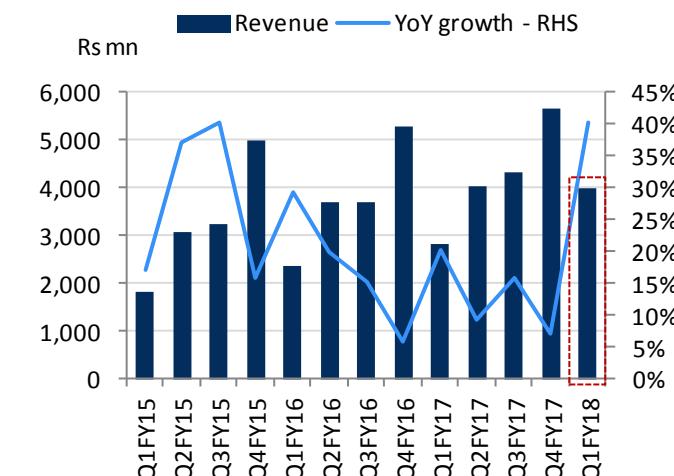
Segmental Quarterly Performance: Standalone

Rs mn	1QFY18	1QFY17	YoY (%)	4QFY17*	QoQ (%)
Segmental Revenue					
Infrastructure Projects	243	108	124	315	(23)
Polymer Products	433	420	3	695	(38)
Engineering Products	3,651	2,571	42	4,664	(22)
Total	4,327	3,099	40	5,674	(24)
EBIT					
Infrastructure Projects	29	15	99	45	(34)
Polymer Products	31	36	(15)	58	(46)
Engineering Products	439	330	33	609	(28)
EBIT Margins (%)					
Infrastructure Projects	12.1	13.7	-153	14.2	(203)
Polymer Products	7.1	8.6	-151	8.3	(117)
Engineering Products	12.0	12.8	-79	13.1	(102)

Source: Company, HDFC sec Inst Research

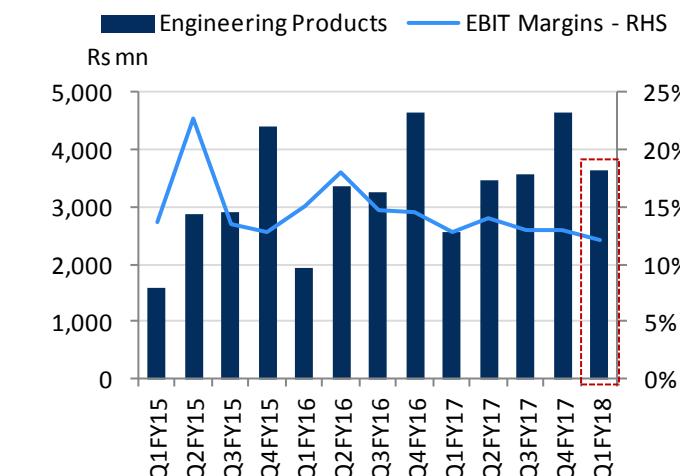
*As per I-GAAP

Revenue Trajectory



Source: Company, HDFC sec Inst Research

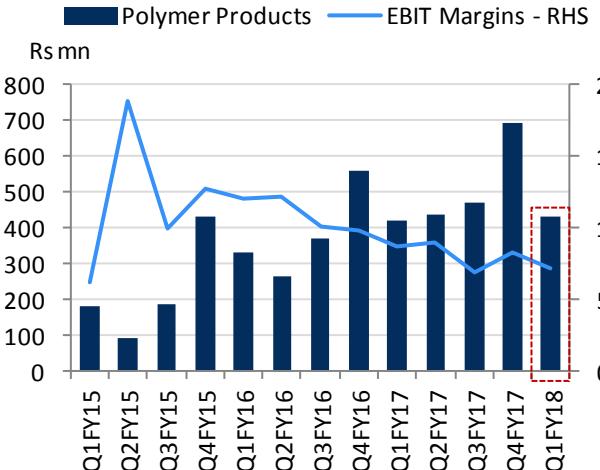
Engineering Projects: Revenue And EBIT Margin



Source: Company, HDFC sec Inst Research

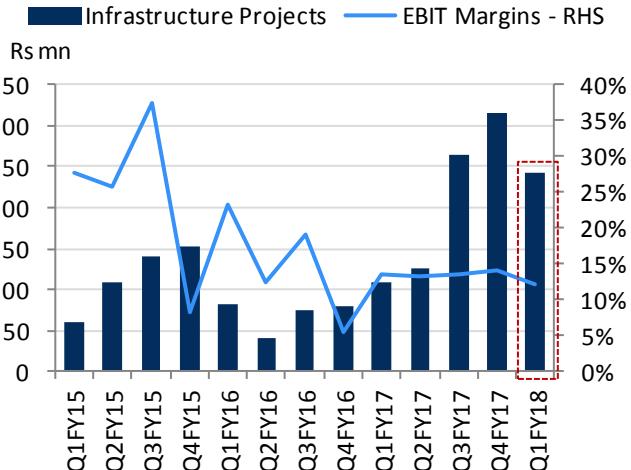
Polymer business revenues grew by a mere 3% on the back of GST transition. However the segment is likely to benefit with shift from unorganised to organised.

Polymer Products: Revenue And EBIT Margin



Source: Company, HDFC sec Inst Research

Infrastructure Products: Revenue And EBIT Margin



Source: Company, HDFC sec Inst Research

Key Assumptions & Estimates: Standalone

Rs mn	FY16	FY17	FY18E	FY19E	FY20E
Revenue					
Engineering Products	13,260	14,237	15,986	17,938	20,113
YoY growth	12.7%	7.4%	12.3%	12.2%	12.1%
Infrastructure Projects	277	813	976	1,122	1,234
YoY growth	-40.2%	193.9%	20.0%	15.0%	10.0%
Polymer Products	1,525	1,980	2,699	3,585	4,698
YoY growth	70.0%	29.8%	36.3%	32.8%	31.0%
Total	15,062	17,030	19,661	22,645	26,045
YoY growth	14.7%	13.1%	15.4%	15.2%	15.0%
Polymers- Sales quantity (MT)	20,107	25,134	31,669	40,061	50,476
Polymers- Realization (Rs/ MT)	75,864	81,175	85,233	89,495	93,075
EBIT Margins					
Engineering Products	13.2%	13.3%	13.8%	13.8%	14.0%
Infrastructure Projects	15.4%	13.7%	12.5%	12.0%	13.0%
Polymer Products	10.8%	8.4%	10.0%	11.0%	11.0%
Capex	917	975	700	600	600
Net Debt	4,184	4,129	4,028	3,701	3,291

Source: Company, HDFC sec Inst Research

Capex planned for FY18 largely pertains to 1) Capacity expansion in the Engineering and Polymer business and 2) Setting up a tower testing station

SOTP Valuation

Business	Method	Jun-19E APAT	Multiple (x)	Valuation	VPS
Engineering Products	P/E multiple	1,253	15	18,792	184
Polymer Products	P/E multiple	208	25	5,212	51
Infrastructure Projects	P/E multiple	69	15	1,038	10
SOTP				245	

Source: Company, HDFC sec Inst Research

Peer Valuations

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Cummins India *	250	900	NEU	974	26.1	28.2	31.3	34.5	31.9	28.7	30.5	28.0	24.8	20.0	20.0	20.4
Engineers India *	102	161	BUY	174	6.2	5.9	7.7	26.1	27.1	20.8	24.7	22.9	14.7	14.1	15.1	21.7
Suzlon	98	16	BUY	25	0.9	0.9	1.3	18.0	18.5	12.1	9.0	9.9	8.4	NA	NA	NA
KEC International	79	308	BUY	330	11.9	14.4	18.2	26.0	21.4	16.9	11.8	11.3	9.5	21.2	21.2	22.1
Kalpataru Power * ^	54	354	BUY	426	17.5	18.6	22.0	15.6	14.7	12.5	11.2	10.2	8.8	11.5	11.0	11.7
Triveni Turbine	43	130	BUY	147	3.7	4.2	4.8	34.8	30.7	27.3	25.7	23.2	20.1	35.2	31.1	28.5
Skipper Limited *	22	215	BUY	245	8.7	10.6	14.0	24.7	20.4	15.4	12.2	10.0	8.3	20.4	20.1	22.1

*Represent SA numbers

^ Adjusted for value of Subs /JV's / non-core businesses

Source: Company, HDFC sec Inst Research

Income Statement: Standalone

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	14,881	16,836	19,661	22,645	26,045
Growth (%)	17.1	13.1	16.8	15.2	15.0
Material Expenses	9,485	10,908	12,779	14,719	16,929
Employee Expenses	500	732	841	967	1,113
SG&A Expenses	2,764	3,048	3,444	3,891	4,397
Total Expenses	12,749	14,687	17,064	19,578	22,439
EBITDA	2,132	2,149	2,596	3,067	3,606
EBITDA Margin (%)	14.3	12.8	13.2	13.5	13.8
EBITDA Growth (%)	24.6	0.8	20.8	18.1	17.6
Depreciation	241	315	440	449	457
EBIT	1,891	1,834	2,157	2,618	3,149
Other Income (Including EO Items)	112	342	34	43	54
Interest	570	611	599	556	515
PBT	1,433	1,565	1,592	2,105	2,688
Tax (Incl Deferred)	482	450	509	674	860
RPAT	951	1,115	1,083	1,431	1,828
EO (Loss) / Profit (Net Of Tax)	40	222	-	-	-
APAT	911	894	1,083	1,431	1,828
APAT Growth (%)	50.8	(1.9)	21.1	32.2	27.7
Adjusted EPS (Rs)	8.9	8.7	10.6	14.0	17.8
EPS Growth (%)	50.8	(1.9)	21.1	32.2	27.7

Source: Company, HDFC sec Inst Research

Balance Sheet: Standalone

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	102	102	102	102	102
Reserves	3,713	4,841	5,738	6,985	8,628
Total Shareholders Funds	3,815	4,943	5,841	7,087	8,730
Long Term Debt	1,983	1,758	1,758	1,758	1,758
Short Term Debt	2,699	2,620	2,420	2,120	1,820
Total Debt	4,682	4,378	4,178	3,878	3,578
Net Deferred Taxes	315	391	391	391	391
Other Non-current Liabilities & Provns	13	22	13	15	17
TOTAL SOURCES OF FUNDS	8,825	9,734	10,423	11,371	12,717
APPLICATION OF FUNDS					
Net Block	3,852	4,642	4,496	4,747	4,890
CWIP	421	294	700	600	600
Investments	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-
Total Non-current Assets	4,274	4,936	5,196	5,347	5,490
Cash & equivalents	498	249	150	177	288
Inventories	2,500	3,682	3,878	4,467	5,352
Debtors	3,724	3,730	4,578	5,274	6,065
Other Current Assets	907	713	808	931	1,070
Total Current Assets	7,131	8,124	9,265	10,671	12,487
Creditors	2,884	3,571	4,040	4,653	5,352
Other Current Liabilities & Provns	193	5	149	171	197
Total Current Liabilities	3,077	3,575	4,189	4,824	5,549
Net Current Assets	4,054	4,549	5,076	5,847	6,939
TOTAL APPLICATION OF FUNDS	8,825	9,734	10,423	11,371	12,717

Source: Company, HDFC Sec Inst Research

Cash Flow Statement: Standalone

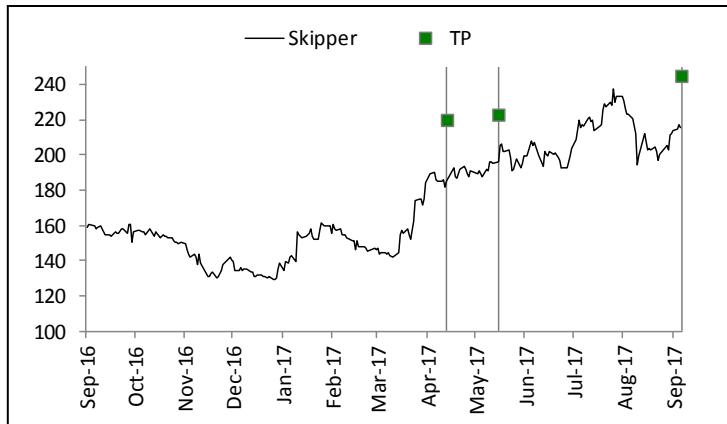
(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,433	1,565	1,592	2,105	2,688
Non-operating & EO items	(112)	(342)	(34)	(43)	(54)
Interest Expenses	570	611	599	556	515
Depreciation	241	315	440	449	457
Working capital change	(1,047)	(487)	(536)	(769)	(1,090)
Tax Paid	(482)	(450)	(509)	(674)	(860)
Other operating items	28	259	-	-	-
OPERATING CASH FLOW (a)	631	1,472	1,550	1,625	1,656
Capex	(917)	(975)	(700)	(600)	(600)
Free Cash Flow	(286)	496	850	1,025	1,056
Investments	-	-	-	-	-
Non-operating Income	112	342	34	43	54
INVESTING CASH FLOW (b)	(805)	(633)	(666)	(557)	(546)
Debt Issuance/(Repaid)	853	(304)	(200)	(300)	(300)
Interest	(570)	(611)	(599)	(556)	(515)
FCFE	(2)	(418)	52	169	242
Share Capital Issuance	-	-	-	-	-
Dividend	(172)	(172)	(185)	(185)	(185)
FINANCING CASH FLOW (c)	111	(1,087)	(984)	(1,041)	(999)
NET CASH FLOW (a+b+c)	(63)	(248)	(99)	27	110
Closing Cash & Equivalents	498	250	150	177	288

Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY %					
GPM	36.3	35.2	35.0	35.0	35.0
EBITDA margin	14.3	12.8	13.2	13.5	13.8
APAT margin	6.1	5.3	5.5	6.3	7.0
RoE	26.6	20.4	20.1	22.1	23.1
Core RoCE (RoIC)	16.9	14.7	14.8	16.6	18.1
RoCE	16.2	14.3	14.8	16.6	18.1
EFFICIENCY					
Tax Rate (%)	33.6	28.7	32.0	32.0	32.0
Fixed Asset Turnover (x)	3.5	3.4	3.8	4.2	4.7
<i>Inventory (days)</i>	61.3	79.8	72.0	72.0	75.0
<i>Debtors (days)</i>	91.3	80.9	85.0	85.0	85.0
<i>Other Current Assets (days)</i>	22.3	15.5	15.0	15.0	15.0
<i>Payables (days)</i>	70.7	77.4	75.0	75.0	75.0
<i>Other Current Liab & Provs (days)</i>	4.7	0.1	2.8	2.8	2.8
<i>Cash conversion cycle (days)</i>	99.4	98.6	94.2	94.2	97.2
Debt/EBITDA (x)	2.2	2.0	1.6	1.3	1.0
Net D/E (x)	1.1	0.8	0.7	0.5	0.4
Interest Coverage (x)	3.3	3.0	3.6	4.7	6.1
PER SHARE DATA (Rs)					
EPS	8.9	8.7	10.6	14.0	17.8
CEPS	11.3	11.8	14.9	18.4	22.3
Dividend	1.4	1.4	1.5	1.5	1.5
Book Value	37.3	48.3	57.0	69.2	85.3
VALUATION					
P/E (x)	24.2	24.7	20.4	15.4	12.1
P/BV (x)	5.8	4.5	3.8	3.1	2.5
EV/EBITDA (x)	12.3	12.2	10.0	8.4	7.0
EV/Revenues (x)	1.8	1.6	1.3	1.1	1.0
OCF/EV (%)	2.4	5.6	5.9	6.3	6.5
FCF/EV (%)	(1.1)	1.9	3.3	4.0	4.2
FCFE/Mkt Cap (%)	(0.0)	(1.9)	0.2	0.8	1.1
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY

Date	CMP	Reco	Target
17-Apr-17	185	BUY	220
15-May-17	197	BUY	223
7-Sep-17	215	BUY	245

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

I, **Ashutosh Mehta**, ACA author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently send or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near KanjurMarg Station, Opp. Crompton Greaves, KanjurMarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel,
Mumbai - 400 013

Board : +91-22-6171 7330

www.hdfcsec.com