

# Skipper

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## Strong performance, muted outlook for Polymer segment

- Skipper's operational performance exceeded our expectations. Revenues increased by 33% yoy aided by strong volume growth and rising commodity prices. Though the EBITDAM declined by 64bps yoy to 13.1%, PAT increased by 31% yoy.
- While engineering products (EP) reported robust growth at 29% yoy, the polymer segment lagged behind with muted growth of 6% yoy largely impacted by GST related disruptions.
- Order inflows was at ~Rs5.25bn while the backlog stood at Rs25bn. The company's JV with MetzerPlas - Israeli kibbutz-based industry of micro-irrigation products is likely to be finalised in 4QFY18.
- Though the management was upbeat on the performance in the EP segment, the guidance on polymer segment was muted. We have downgraded FY18/19/20E EPS by 8% / 6% and 6% respectively on lower revenue and profitability assumptions in the polymer segment. Maintain BUY with price target of Rs297 (SoTP based)

**Robust performance:** Skipper reported revenues at Rs 5.6bn (+33% yoy). Though the gross margins declined by 203bps to 31%, the EBITDAM declined by 64bps to 13.1%. PAT increased by 31% yoy to Rs292mn. Revenues in the EP segment increased by 29% yoy to Rs4.9bn –aided by volume growth and rising commodity prices (~8-10%). EBITM in the EP segment increased by 42bps to 13.1%. Revenues in the polymer segment grew at a meagre 6% yoy to Rs540 mn as GST related disruptions continue to impact offtake from distributors and dealers. EBITM increased by 46bps yoy to 6.7%. Order inflows worth Rs5.3bn was secured from PGCIL, SEB's and Reliance Jio. Order back log stands strong at ~Rs26bn.

**Maintain BUY:** Strong order backlog of ~Rs25bn (1.7x FY17 Engineering product sales) coupled with steady order pipeline ensures robust revenue visibility in the EP segment over the next couple of years. Going forward, the company is also planning to increasingly bid for railway electrification projects. Management commentary indicate that GST related disruptions still persists and majority of dealers hesitate to replenish stocks – there is a possibility that the polymer pipe industry may report flattish growth in FY18. Also, few of the established players have expanded capacities, thereby impacting the utilisations across the industry. The company expects the polymer division to report ~10-15% growth in FY18 and ~ 50-55% growth in the subsequent two years. We have downgraded FY18/19/20E EPS by 8% / 6% and 6% respectively on lower revenue and profitability assumption in the polymer segment. We expect the company to post robust revenue and PAT growth (FY17-20 CAGR) of ~ 22% and ~25% respectively. We Maintain BUY with revised price target of Rs297 (SoTP based on FY20E earnings).

### Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	15,062	17,030	20,360	25,063	31,095
EBITDA	2,192	2,460	2,646	3,292	4,071
EBITDA Margin (%)	14.6	14.4	13.0	13.1	13.1
APAT	951	1,115	1,218	1,650	2,177
EPS (Rs)	9.3	10.9	11.9	16.1	21.3
EPS (% chg)	6.7	17.3	9.2	35.5	31.9
ROE (%)	27.7	25.5	22.3	24.6	25.9
P/E (x)	25.5	21.7	19.9	14.7	11.1
EV/EBITDA (x)	12.9	11.4	10.8	8.7	7.0
P/BV (x)	6.4	4.9	4.1	3.3	2.6

Source: Company, Emkay Research

CMP	Target Price
Rs 237 as of (February 6, 2018)	Rs 297 (▼) 12 months
Rating	Upside
BUY (■)	25.3 %

### Change in Estimates

EPS Chg FY18E/FY19E (%) (8.5)/(6.4)

Target Price change (%) (9.2)

Target Period (Months) 12

Previous Reco BUY

### Emkay vs Consensus

#### EPS Estimates

	FY18E	FY19E
Emkay	11.9	16.1
Consensus	11.7	15.0
Mean Consensus TP (12M)	Rs 283	

### Stock Details

Bloomberg Code	SKIPPER IN
Face Value (Rs)	1
Shares outstanding (mn)	103
52 Week H/L	293 / 140
M Cap (Rs bn/USD bn)	24 / 0.38
Daily Avg Volume (nos.)	1,98,354
Daily Avg Turnover (US\$ mn)	0.8

### Shareholding Pattern Dec '17

Promoters	70.4%
FIIs	6.2%
DII	9.9%
Public and Others	13.6%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(11)	6	50
Rel. to Nifty	(11)	(11)	2	26

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

**John Perinchery**

john.perinchery@emkayglobal.com

+91 22 66121374

**Jason Soans**

jason.soans@emkayglobal.com

+91 22 66121262

**Exhibit 1: Actual V/s estimates for Quarter**

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	5,664	4,928	4,946	15%	15%	Better than expected execution in the EP segment
EBITDA	741	677	639	9%	16%	Lower margins in the polymer segment impacts EBITDAM. However the strong execution in the EP segment propels EBITDA.
EBITDA, margin	13.1%	14%	13%	-62 bps	18 bps	
PAT	292	235	240	24%	22%	Lower interest cost aids PAT growtha

Source: Company, Emkay Research

**Exhibit 2: Quarterly Financials-Standalone**

Rs mn	Q3FY18	Q3FY17	Q2FY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Revenues	5,664	4,251	5,156	33%	10%	11,002	14,809	35%
Material cost	3,902	2,843	3,458	37%	13%	7,141	9,830	38%
as % of sales	69%	67%	67%	203 bps	184 bps	65%	66%	147 bps
Employee Cost	236	194	251	22%	-6%	539	697	29%
as % of sales	4%	5%	5%	-40 bps	-72 bps	5%	5%	-19 bps
Other expenditure	786	632	765	24%	3%	1,610	2,342	45%
as % of sales	14%	15%	15%	-99 bps	-96 bps	15%	16%	118 bps
Total expenditure	4,923	3,668	4,473	34%	10%	9,290	12,869	39%
EBITDA	741	583	683	27%	8%	1,712	1,940	13%
Depreciation	118	76	121	54%	-2%	215	346	60%
EBIT	623	507	562	23%	11%	1,497	1,594	7%
Other Income	3	8	3	-59%	1%	23	14	-40%
Interest	176	190	200	-7%	-12%	535	545	2%
PBT	450	325	365	38%	23%	985	1,063	8%
Taxes	158	103	133	54%	19%	324	379	17%
Reported PAT	292	222	232	31%	26%	661	684	4%
Adjusted EPS	2.9	2.2	2.3	31%	26%	6.5	6.7	4%

Margins (%)		bps	bps	bps
Gross Margins	31.1%	33.1%	32.9%	(203)
EBIDTAM	13.1%	13.7%	13.2%	(64)
EBITM	11.0%	11.9%	10.9%	(93)
PBTM	7.9%	7.6%	7.1%	30
PATM	5.2%	5.2%	4.5%	(6)
Effective Tax rate	35.1%	31.7%	36.4%	345
				(124)
				32.9%
				35.6%
				271

Source: Company, Emkay Research

**Exhibit 3: Segmental performance-Standalone**

Rs in mn	Q3FY18	Q3FY17	Q2FY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
<b>Segment Revenue</b>								
Engineering Products	4,863	3,784	4,634	29%	5%	9,982	13,148	32%
PVC Products	540	508	428	6%	26%	1,387	1,401	1%
Infrastructure Projects	261	263	95	-1%	176%	496	599	21%
Total	5,664	4,555	5,156	24%	10%	11,866	15,148	28%
Less : inter segment revenue	-	-	-			-	-	
<b>Total</b>	<b>5,664</b>	<b>4,555</b>	<b>5,156</b>	<b>24%</b>	<b>10%</b>	<b>11,866</b>	<b>15,148</b>	<b>28%</b>
<b>Segment Results</b>								
Engineering Products	639	481	606	33%	5%	1,471	1,684	15%
PVC Products	36	32	28	14%	28%	107	95	-12%
Infrastructure Projects	32	37	11	-13%	185%	70	73	3%
Total	707	550	645	29%	9%	1,648	1,852	12%
Less- Unall (Exp)	84	43	83	97%	1%	152	258	70%
Add Other Income	3	8	3	-59%	1%	23	14	-40%
Less- Interest Exp	176	190	200	-7%	-12%	535	545	2%
Other Exceptional Item	-	-	-			-	-	
<b>PBT</b>	<b>450</b>	<b>325</b>	<b>365</b>	<b>38%</b>	<b>23%</b>	<b>985</b>	<b>1,063</b>	<b>8%</b>
<b>Segment Margins (%)</b>								
Engineering Products	13.1%	12.7%	13.1%	42	6	14.7%	12.8%	-192
PVC Products	6.7%	6.2%	6.6%	46	8	7.7%	6.8%	-96
Infrastructure Projects	12.3%	14.0%	11.9%	-173	38	14.2%	12.1%	-201
<b>Average</b>	<b>12.5%</b>	<b>12.1%</b>	<b>12.5%</b>	<b>41</b>	<b>-4</b>	<b>13.9%</b>	<b>12.2%</b>	<b>-167</b>

Source: Company, Emkay Research

**Exhibit 4: Revision in Earning Estimates**

Y/E, Mar (Rs. mn)	FY18E			FY19E			FY20E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	20597	20,360	-1%	25889	25,063	-3%	32120	31,095	-3%
EBITDA	2803	2,646	-6%	3442	3,292	-4%	4278	4,071	-5%
EBITDAM (%)	13.6%	13.0%	-61 bps	13.3%	13.1%	-16 bps	13.3%	13.1%	-23 bps
APAT	1328	1,218	-8%	1756	1,650	-6%	2322	2,177	-6%
EPS (Rs)	13.0	11.9	-8%	17.2	16.1	-6%	22.7	21.3	-6%

Source: Company, Emkay Research

### Key Financials (Standalone)

#### Income Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>15,062</b>	<b>17,030</b>	<b>20,360</b>	<b>25,063</b>	<b>31,095</b>
<b>Expenditure</b>	<b>12,870</b>	<b>14,569</b>	<b>17,714</b>	<b>21,771</b>	<b>27,023</b>
<b>EBITDA</b>	<b>2,192</b>	<b>2,460</b>	<b>2,646</b>	<b>3,292</b>	<b>4,071</b>
Depreciation	241	315	363	403	443
<b>EBIT</b>	<b>1,951</b>	<b>2,145</b>	<b>2,283</b>	<b>2,889</b>	<b>3,629</b>
Other Income	52	31	15	15	15
Interest expenses	570	611	558	547	534
<b>PBT</b>	<b>1,433</b>	<b>1,565</b>	<b>1,740</b>	<b>2,358</b>	<b>3,110</b>
Tax	482	450	522	707	933
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>951</b>	<b>1,115</b>	<b>1,218</b>	<b>1,650</b>	<b>2,177</b>
<b>Adjusted PAT</b>	<b>951</b>	<b>1,115</b>	<b>1,218</b>	<b>1,650</b>	<b>2,177</b>

#### Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	102	102	102	102	102
Reserves & surplus	3,713	4,841	5,868	7,321	9,301
<b>Net worth</b>	<b>3,815</b>	<b>4,943</b>	<b>5,970</b>	<b>7,424</b>	<b>9,404</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>4,504</b>	<b>4,159</b>	<b>4,500</b>	<b>4,500</b>	<b>4,400</b>
Net deferred tax liability	315	391	391	391	391
<b>Total Liabilities</b>	<b>8,634</b>	<b>9,493</b>	<b>10,861</b>	<b>12,315</b>	<b>14,195</b>
<b>Net block</b>	<b>3,852</b>	<b>4,642</b>	<b>5,179</b>	<b>5,526</b>	<b>5,834</b>
<b>Investment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>	<b>7,651</b>	<b>8,524</b>	<b>10,005</b>	<b>11,889</b>	<b>14,469</b>
Cash & bank balance	498	249	273	109	61
Other Current Assets	0	0	0	0	0
<b>Current liabilities &amp; Provision</b>	<b>3,268</b>	<b>3,817</b>	<b>4,323</b>	<b>5,101</b>	<b>6,109</b>
<b>Net current assets</b>	<b>4,383</b>	<b>4,707</b>	<b>5,682</b>	<b>6,788</b>	<b>8,361</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>8,634</b>	<b>9,493</b>	<b>10,861</b>	<b>12,315</b>	<b>14,195</b>

#### Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>1,381</b>	<b>1,534</b>	<b>1,725</b>	<b>2,343</b>	<b>3,095</b>
Other Non-Cash items	62	20	0	0	0
Chg in working cap	(1,208)	(496)	(952)	(1,271)	(1,620)
<b>Operating Cashflow</b>	<b>651</b>	<b>1,752</b>	<b>1,173</b>	<b>1,314</b>	<b>1,518</b>
Capital expenditure	(946)	(850)	(756)	(750)	(750)
<b>Free Cash Flow</b>	<b>(295)</b>	<b>903</b>	<b>416</b>	<b>564</b>	<b>768</b>
Investments	0	0	0	0	0
Other Investing Cash Flow	(25)	21	0	0	0
<b>Investing Cashflow</b>	<b>(919)</b>	<b>(797)</b>	<b>(741)</b>	<b>(735)</b>	<b>(735)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	1,073	(346)	341	0	(100)
Dividend paid (incl tax)	(160)	(172)	(191)	(197)	(197)
Other Financing Cash Flow	(215)	43	0	0	0
<b>Financing Cashflow</b>	<b>128</b>	<b>(1,087)</b>	<b>(407)</b>	<b>(744)</b>	<b>(831)</b>
<b>Net chg in cash</b>	<b>(140)</b>	<b>(132)</b>	<b>24</b>	<b>(165)</b>	<b>(48)</b>
Opening cash position	561	498	249	273	109
<b>Closing cash position</b>	<b>498</b>	<b>249</b>	<b>273</b>	<b>109</b>	<b>61</b>

Source: Company, Emkay Research

#### Key Ratios

<b>Profitability (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
EBITDA Margin	14.6	14.4	13.0	13.1	13.1
EBIT Margin	13.0	12.6	11.2	11.5	11.7
Effective Tax Rate	33.6	28.8	30.0	30.0	30.0
Net Margin	6.3	6.5	6.0	6.6	7.0
ROCE	26.1	24.0	22.6	25.1	27.5
ROE	27.7	25.5	22.3	24.6	25.9
RoIC	28.1	25.5	23.2	25.4	27.6

<b>Per Share Data (Rs)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
EPS	9.3	10.9	11.9	16.1	21.3
CEPS	11.6	14.0	15.5	20.1	25.6
BVPS	37.3	48.3	58.3	72.6	91.9
DPS	1.4	1.6	1.6	1.6	1.6

<b>Valuations (x)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
PER	25.5	21.7	19.9	14.7	11.1
P/CEPS	20.3	17.0	15.3	11.8	9.3
P/BV	6.4	4.9	4.1	3.3	2.6
EV / Sales	1.9	1.7	1.4	1.1	0.9
EV / EBITDA	12.9	11.4	10.8	8.7	7.0
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.7

<b>Gearing Ratio (x)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Net Debt/ Equity	1.1	0.8	0.7	0.6	0.5
Net Debt/EBITDA	1.8	1.6	1.6	1.3	1.1
Working Cap Cycle (days)	94.1	95.5	97.0	97.3	97.4

<b>Growth (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Revenue	14.7	13.1	19.6	23.1	24.1
EBITDA	1.9	12.2	7.5	24.4	23.7
EBIT	1.0	9.9	6.4	26.6	25.6
PAT	6.7	17.3	9.2	35.5	31.9

<b>Quarterly (Rs mn)</b>	<b>Q3FY17</b>	<b>Q4FY17</b>	<b>Q1FY18</b>	<b>Q2FY18</b>	<b>Q3FY18</b>
Revenue	4,251	5,837	3,988	5,156	5,664
EBITDA	583	912	516	683	741
<b>EBITDA Margin (%)</b>	<b>13.7</b>	<b>15.6</b>	<b>12.9</b>	<b>13.2</b>	<b>13.1</b>
PAT	222	528	160	232	292
<b>EPS (Rs)</b>	<b>2.2</b>	<b>5.2</b>	<b>1.6</b>	<b>2.3</b>	<b>2.9</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-16</b>	<b>Mar-17</b>	<b>Jun-17</b>	<b>Sep-17</b>	<b>Dec-17</b>
Promoters	72.4	70.4	70.4	70.4	70.4
FII	1.5	1.5	2.0	2.4	6.2
DII	6.9	10.8	11.0	11.5	9.9
Public and Others	19.2	17.2	16.5	15.8	13.6

Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
30-Jan-18	221	327	12m	Buy	John Perinchery
14-Dec-17	259	327	12m	Buy	John Perinchery
27-Nov-17	277	327	12m	Buy	John Perinchery
18-Oct-17	214	282	12m	Buy	John Perinchery

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:

Dissemination Date:

Sources for all charts and tables are Emkay Research unless otherwise specified.

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**Emkay Global Financial Services Ltd.**

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)

**SINGAPORE****DBS Bank Ltd**

Contact: Janice Chua  
12 Marina Boulevard, Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel. 65-6878 8888  
Fax: 65 65353 418  
e-mail: equityresearch@dbs.com  
Company Regn. No. 196800306E

---

**THAILAND****DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9<sup>th</sup>, 14<sup>th</sup>-15<sup>th</sup> Floor  
Rama 1 Road, Pathumwan,  
Nagkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand

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**INDONESIA****PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel. 62 21 3003 4900  
Fax: 62 21 3003 4943  
e-mail: research@id.dbsvickers.com

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John Perinchery, CMA., CA

john.perinchery@emkayglobal.com

+91 22 66121374