

BUY



Asian Markets Securities Pvt. Ltd.

Institutional Research

CMP (Rs)	95
Target (Rs)	156

Nifty: 10,610; Sensex: 35,222

Key Stock Data

BSE Code	538562
NSE Code	SKIPPER
Bloomberg Code	SKIPPERIN
Shares o/s mn (FVRs2)	102.3
Market Cap (Rs bn)	9.2
52-Week High / Low	293/83
3-M Daily Avg. Vol.	2,37,828

Relative Performance

(%)	1m	3m	12m
SKIPPER	(4.1)	(24.7)	(64.1)
NIFTY	1.3	(7.2)	4.2
Sensex	1.4	(6.9)	6.9

Shareholding Pattern

(%)	Mar18	Jun18	Sep18
Promoter	70.2	70.2	71.4
FII	6.2	6.3	6.6
DII	9.2	9.4	7.8
Others	14.4	14.1	14.2

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Skipper Ltd

Polymer business continues to drag...

Skipper Limited (Skipper) reported dismal set of 2QFY19 results. Revenues grew muted by just 2% yoy to Rs 5.2bn, led by muted growth in Engineering and 16% yoy degrowth in PVC segment. Sustained high raw material prices of steel & zinc along with poor PVC margins led to 256bp yoy decline in EBITDAM (Excl forex). Adjusted PAT decreased by 44% yoy to Rs120mn, on the back of lower margin and higher interest cost. Order book stands at Rs24.5bn as on date with 1.37x book to bill. Order inflow of Rs6.3bn in 1HFY19 for engineering products segment. Management expects Engineering revenue growth of 10-15% and EBITDAM of 12-13% for FY19E. In PVC products business; company has plan to demerge the "Polymer products division (expect Palasbari units at Assam)" into Skipper Pipes Limited. We have reduced our earnings estimate by 22% each in FY19/FY20, respectively, on the back of lower EBIT margin and higher interest cost. Given the decent engineering business, Demerger of PVC segment, and cheap valuations; we remain positive on the business. We maintain BUY rating with a revised TP of Rs 156, based on 15x PER of FY20E EPS.

2QFY19 reported muted sales growth of 2% while EBITDAM decline to 10.2%: Revenue grew by 2% yoy to Rs5.2bn, on the back of slower execution in engineering and steep decline in PVC segment. PVC revenue decline due to shifting of plant. EBITDA decreased by 18.8% yoy to Rs535mn and EBITDAM decline by 256bp yoy to 10.2%, on account of sharp increased in raw material price like steel & zinc and restructuring in PVC business model. Lower margin coupled with higher interest cost led to Adj PAT decline by 44% yoy to Rs120mn. In 1HFY19, Sales grew by 9.6% to Rs10bn, EBITDA decline by 2% to Rs1bn and EBITDAM stands at 10.4%, Adj PAT decline by 32.4% to Rs207mn and APATM stands at 3.4%.

Segment Wise Performance: Engineering products segment reported muted revenue growth of 3.1% yoy to Rs4.8bn, owing to slower projects execution on account of monsoon and election in multiple region. EBIT decreased by 9.5% to Rs526mn and EBITM decline by 153bp yoy to 11% due to cost pressure in fixed price contracts and entry level pricing in railway towers. Polymer revenue decreased by 16% to Rs359mn, the dip in revenue was mainly on account of shifting of capacity of the Telangana and Secunderabad plants to Uluberia plant as part of the company's strategy to focus more on the higher margin plumbing, pipes and fittings segment of the industry. EBIT reported loss of Rs11mn, on account of increased spending on brand building and dealer incentives. Infra project segment revenue up by 10.4% to Rs105mn.

Order book status: Skipper has current order book of over Rs 24.5bn, amounting to a book-to-bill of 1.37x of FY18 revenue. Order Intake of Rs 6.3bn in 1HFY19 (Rs2.2bn in Q1FY19 and Rs4.1bn in Q2FY19). PGCIL/SEB/Export order book stands at 41%/43%/16% of total order book respectively. The company expects growth to gain pace in the 2HFY19 with increased participation in opportunities from Power Grid, SEBs, TBCB projects, Renewable projects, Exports and Infrastructure push in North East & East India. We remain watchful of order inflow to sustain the future revenue growth visibility.

Demerger of Polymer business: The company has announced to demerge its "Polymer Products Division (expect Palasbari unit in Assam)" into Skipper Pipe Ltd. All the assets and liabilities of skipper polymer products division (expect Palasbari units) to be demerged into skipper pipes Ltd. Skipper Pipes share will be listed in NSE & BSE on completion of Demerger.

Outlook and Valuations: We estimate revenue CAGR of 14.8% and Adj PAT CAGR 3.2% during FY18-20E. Return ratios in FY20 to be at ROCE at 17.9% and ROE at 14.9%. At Current price stock is trading at 17.2x/9.1x in FY19/20E respectively. Given the positively placed business model to capture growth of TLT segment backed by public spending, opportunity in exports, benefits of backwards integration, expansion in capacities, healthy return ratios, young management team and cheaper valuations; we maintain BUY rating with a revised TP of Rs156, based on 15x PER of FY20E EPS. We remain cautious on new order inflow, Debt and the working capital situation and would review our rating and call based on developments in these areas.

Exhibit 1: Key Financials

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Sales	16,069	20,234	22,701	26,449
yoy (%)	9.9	25.9	12.2	16.5
EBITDA	2,196	2,749	2,463	2,936
yoy (%)	9.2	25.2	(10.4)	19.2
Adjusted PAT	872	997	771	1,062
yoy (%)	5.0	14.4	(22.7)	37.8
Equity	102	103	103	103
EPS	8.5	9.7	7.5	10.4

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY17	FY18	FY19E	FY20E
EBITDAM (%)	13.6	13.4	10.9	11.1
NPM (%)	5.4	4.9	3.4	4.0
PER (x)	7.8	8.2	17.2	9.1
P/BV (x)	1.8	1.5	1.4	1.3
EV/Sales (x)	0.9	0.7	0.7	0.6
EV/ EBITDA (x)	6.3	5.3	6.1	5.2
RoACE (%)	19.4	20.8	16.1	17.9
RoANW (%)	26.0	20.1	8.6	14.9

Exhibit 3: Skipper Ltd: 2Q FY19 quarterly results

Y/E March (Rs mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	yoY (%)	qoq (%)	1HFY18	1HFY19	yoY (%)
Total Sales	5156	5664	5929	4787	5240	1.6	9.5	9144	10027	9.6
Stock Adjustment	-397	210	-769	-406	414	-204.2	-202.0	-883	8	-100.9
Cons. of Raw Materials	3855	3693	4185	3659	3216	-16.6	-12.1	6811	6875	0.9
Employee Cost	251	236	237	235	236	-6.0	0.7	461	471	2.0
Other Expenditure	789	786	1190	791	839	6.3	6.0	1691	1630	-3.6
Total Expenditure	4498	4923	4843	4279	4705	4.6	10.0	8080	8984	11.2
EBITDA	658	741	1086	508	535	-18.8	5.2	1065	1043	-2.0
Add: Other Income	3	3	8	3	3	3.4	4.0	11	7	-38.7
Interest	200	176	239	274	257	28.1	-6.4	369	531	43.8
Depreciation	121	118	113	115	97	-19.9	-16.2	228	212	-7.1
Excpt. Item	25	0	0	-59	-147		150.2	134	-205	-252.9
Profit Before Tax	365	450	741	64	38	-89.5	-39.9	613	102	-83.3
Provision for Taxation	133	158	247	19	13			221	32	-85.4
PAT	232	292	493	45	25	-89.3	-44.6	392	70	-82.2
Extra Ordinary Income	16	0	0	-41	-95			86	-137	-258.4
Adj Net Profit	217	292	493	86	120	-44.4	39.5	306	207	-32.4
Equity Capital (FV Rs 1)	102	102	102	102	102			102	102	
Basic EPS (Rs)	2.3	2.9	4.8	0.4	0.2				3.8	0.7
Adjusted EPS (In Rs)	2.1	2.9	4.8	0.8	1.2				3.0	2.0
EBITDA (%)	12.8	13.1	18.3	10.6	10.2	(256bp)	(42bp)	11.6	10.4	(124bp)
PAT (%)	3.9	5.2	8.3	2.7	4.1	22bp	145bp	2.4	3.4	103bp
Tax / PBT (%)	36.4	35.1	33.4	29.5	34.9	(150bp)	542bp	36.0	31.5	(452bp)
Employee Cost/Net Sales(%)	4.9	4.2	4.0	4.9	4.5	(37bp)	(39bp)	5.0	4.7	(35bp)
Others Exp/Net sales (%)	15.3	13.9	20.1	16.5	16.0	70bp	(52bp)	18.5	16.3	(223bp)
Raw Mat. / Net Sales (%)	67.1	68.9	57.6	68.0	69.3	222bp	133bp	64.8	68.6	382bp

Source: Company, AMSEC Research

Exhibit 4: Skipper Ltd: 2Q FY19 Segmental finance

Y/E March(Rs mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	yoY (%)	qoq (%)	1HFY18	1HFY19	yoY%
Segment Revenue										
Engineering Products	4634	4863	4924	4041	4776	3.1	18.2	8285	8817	6.4
PVC products	428	540	748	561	359	-16.1	-36.0	861	920	6.8
Infrastructure Projects	95	261	257	185	105	10.4	-43.6	338	290	-14.2
Gross Revenue	5156	5664	5929	4787	5240	1.6	9.5	9483	10027	5.7
Excise Tax	0	0	0	0	0			339	0	0
Net Sales	5156	5664	5929	4787	5240	1.6	9.5	9144	10027	9.6
Segment Results										
Engineering Products	581	639	964	461	526	-9.5	14.3	911	987	8.3
PVC products	28	36	56	-7	-11	-138.3	45.1	59	-18	-130.9
Infrastructure Projects	11	32	35	24	0	-96.2	-98.2	41	24	-40.5
Total	621	707	1055	477	516	-16.9	8.2	1011	993	-1.8
Less: Interest (Net)	197	173	236	271	253	28.6	-6.5	361	524	45.1
Other Unallocable Exp.	83	83	78	83	78	-6.6	-7.1	171	161	-5.8
Exceptional Items	25	0	0	-59	-147			134	-205	
Profit Before Tax	365	450	741	64	38	-89.5	-39.9	613	102.1	-83.3
EBIT Margin										
Engineering Products	12.5	13.1	19.6	11.4	11.0	(153bp)	(38bp)	11.0	11.2	19bp
PVC products	6.6	6.7	7.5	-1.3	-3.0	(960bp)	(168bp)	6.9	-2.0	(885bp)
Infrastructure Projects	11.9	12.3	13.8	12.9	0.4	(1147bp)	(1244bp)	12.1	8.4	(370bp)
Total EBIT Margin	12.0	12.5	17.8	10.0	9.8	(219bp)	(12bp)	10.7	9.9	(76bp)
ROCE (%)										
Engineering Products	6.6	6.3	11.2	4.2	5.1	(149bp)	88bp	10.3	9.5	(78bp)
PVC products	1.3	1.6	2.4	-0.3	-0.5	(181bp)	(15bp)	2.8	-0.8	(360bp)
Infrastructure Projects	1.8	4.6	4.7	3.7	0.1	(166bp)	(353bp)	6.5	7.8	128bp
Total ROCE	5.5	5.6	9.3	3.5	4.0	(150bp)	53bp	9.0	7.8	(126bp)

Source: Company, AMSEC Research

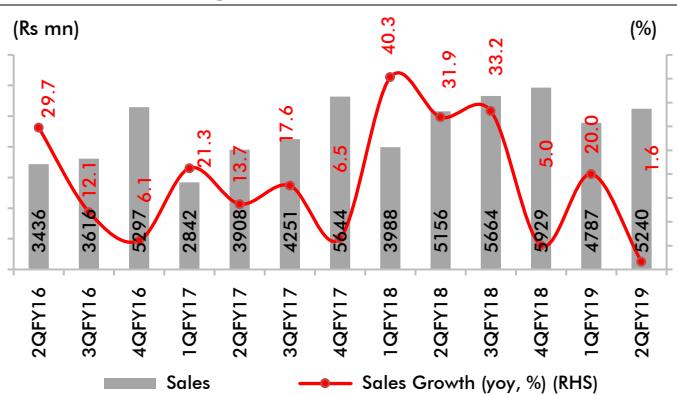
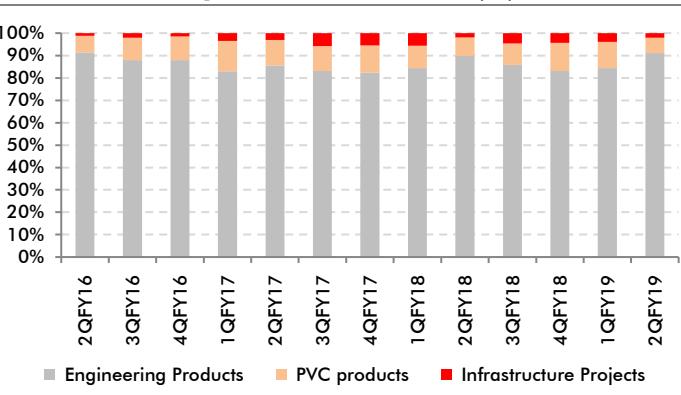
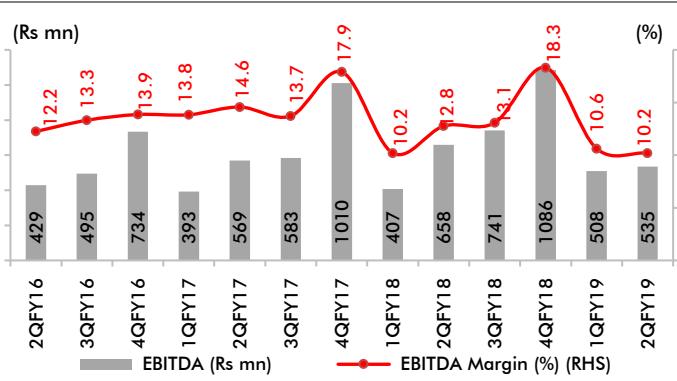
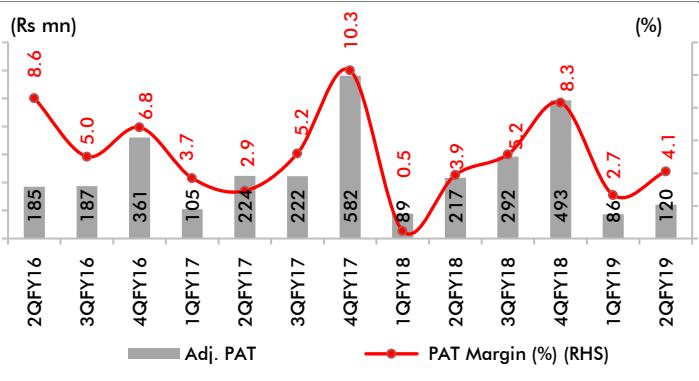
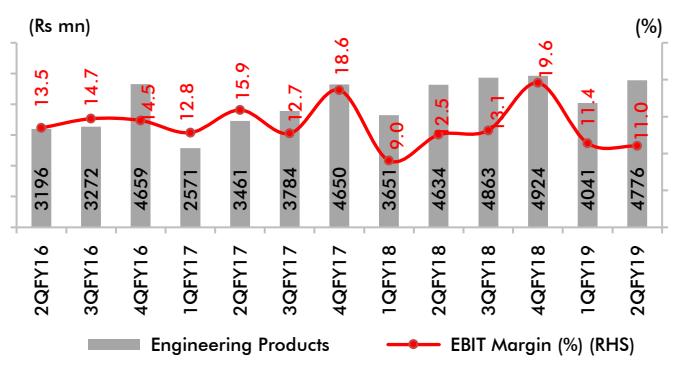
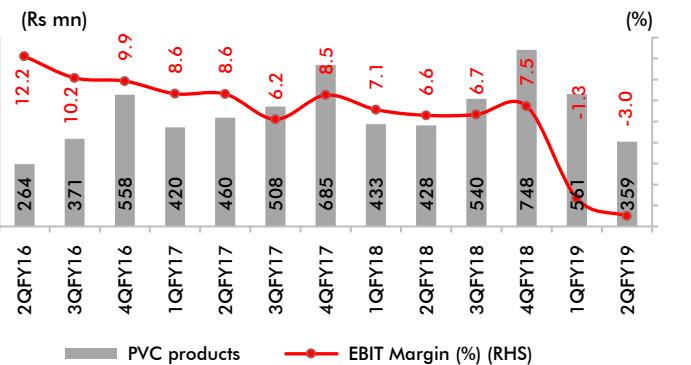
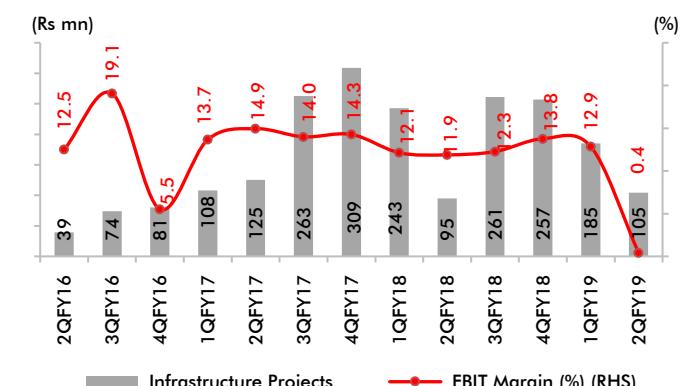
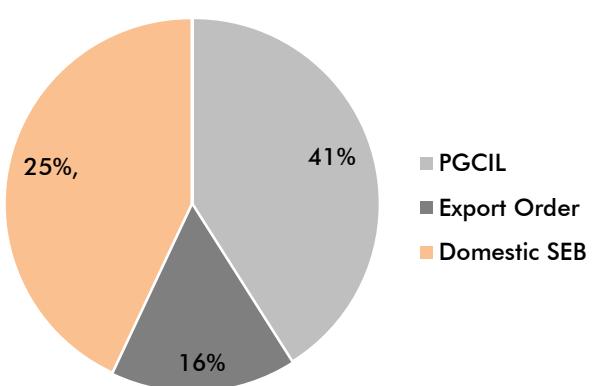
Concall Highlights

Sector Update:

- The T&D sector witnessed muted ordering and execution in 1HFY19, on account of muted PGCIL order awards. Management expect SEB actions to remain healthy with states like Karnataka, Tamil Nadu, Jharkhand, Bihar, Orissa, Andra Pradesh and Telangana planning to increase bidding.
- Plans worth of Rs 500bn of Green Energy Corridor related Projects to come up for bidding from FY20E; will provide a big boost to the domestic Transmission industry

Company Update:

- **Guidance for FY19:** In Engineering business segment management expect 10-15% sales growth with EBITM of 12-13%.
- **EBITDAM impacted due to following reasons:**
 - Impact of commodity price increase in the quarter on some fixed price contracts in T&D business.
 - Telecom contract executed in Q2FY19 were mostly on a fixed price basis.
 - Volume of business in the railways sector with aggressive pricing as an entry strategy.
- **Non T&D is on strong footing**
 - Non T&D business are in strong footing and currently contributing 15% of revenue and management expect to increase to 20% by FY20E.
 - In telecom, all media companies are now doing CAPEX to build and strengthen their network, infrastructure. it will necessitate the installing of ~100,000 mobile towers across the country which equates to ~Rs60bn opportunity.
- **Monopoles segment getting traction**
 - Skipper has also taken a leadership position in the domestic monopoles sector by securing orders of over 100 monopoles from Indian state utilities and private developers as well as over 50 monopoles for the T&D market in Latin America.
 - Won contacts by PGCIL to manufacture monopoles for their 400 KV and 765 KV type test projects
 - Very little competition in this segment with only two serious players in the country right now. Valmont is the market leader in this segment till now in India.
- **Export Market looks promising**
 - The current rupee depreciation has made Skipper more competitive in the export markets.
 - Manufacturing centers such as China are now much more expensive than India for T&D products.
 - The company is in advanced stages of discussions on some sizable orders which are likely to be secured in Q3/Q4FY19. Company bid for contract close to about Rs18bn in the international market.
 - Currently export is 16% of total order book and management expect it go up to 40-45% level, similar to it was in FY14.
- **Working capital & Debt**
 - Receivables & Inventory maintained at FY'18 end levels.
 - The credit squeeze faced by vendors resulted in faster payments to them and thereby increased working capital requirements.

Exhibit 5: Quarterly Revenue Trend**Exhibit 6: Quarterly revenue breakdown (%)****Exhibit 7: Quarterly EBITDA Trend****Exhibit 8: Quarterly Adj PAT Trend****Exhibit 9: Quarterly Engineering Products trend****Exhibit 10: Quarterly PVC products trend****Exhibit 11: Quarterly Infrastructure project trend****Exhibit 12: Order book Mix**

Financials (Standalone)

(Rs mn)

Profit & Loss Account				Cash Flow Statement					
Particulars	FY17	FY18	FY19E	FY20E	Particulars	FY17	FY18	FY19E	FY20E
Net sales	16,069	20,234	22,701	26,449	PBT	1,767	1,804	820	1,475
Other operating income	51	227	-	-	Non-cash adjustments	284	437	440	477
Consumption of materials	10,908	13,246	15,664	18,197	Changes in working capital	(536)	(1,676)	(593)	(1,008)
Staff Expenses	745	934	931	1,084	Interest Paid	671	784	997	984
Other operating expenses	2,271	3,532	3,644	4,232	Tax Paid & Other Adj	(456)	(528)	(254)	(413)
Total Expenditure	13,924	17,712	20,238	23,513	Cashflow from operation	1,730	821	1,411	1,515
EBITDA	2,196	2,749	2,463	2,936	Capital exp. & Advances	(847)	(535)	(604)	(600)
Depreciation	316	459	460	497	Change in investments	-	-	(130)	-
Operating profit	1,880	2,290	2,003	2,439	Other investing cashflow	32	22	20	20
Other income	32	22	20	20	Cashflow from investing	(816)	(513)	(714)	(580)
EBIT	1,912	2,312	2,023	2,459	Issue of equity	-	0	-	-
Interest	671	784	997	984	Issue/repay debt	(300)	600	1,000	100
Exceptional items	526	276	(205)	-	Interest Paid	(671)	(784)	(997)	(984)
Profit before tax	1,767	1,804	820	1,475	Dividends paid	(192)	(198)	(198)	(251)
Tax	525	626	254	413	Other financing cashflow	-	-	-	-
Minority interest	-	-	-	-	Cashflow from financing	(1,163)	(382)	(195)	(1,135)
Reported net profit	1,242	1,178	566	1,062	Change in cash & cash	(249)	(74)	502	(200)
EO Items	370	180	(205)	-	Opening cash & cash eq	498	249	176	677
Adjusted net profit	872	997	771	1,062	Closing cash & cash eq	249	176	677	477
Share O/s mn	102	102	102	102	Free cash flow to firm	882	286	807	915
EPS Rs (adjusted)	8.5	9.7	7.5	10.4					

Balance Sheet

Particulars	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS :				
Share Capital	102	103	103	103
Reserves	5,219	6,270	6,639	7,449
Minority Interest	-	-	-	-
Total Shareholders Funds	5,321	6,373	6,741	7,552
Non-Current Liabilities	2,405	2,255	2,255	2,255
Long term borrowings	1,754	1,667	1,667	1,667
Deferred tax liability	626	539	539	539
Other long term liabilities	-	-	-	-
Long-term provisions	25	50	50	50
Current Liabilities	6,183	8,807	10,154	11,165
Short term borrowings	2,400	2,947	3,947	4,047
Trade payables	2,892	4,903	5,100	5,797
Other current liabilities	886	782	921	1,104
Short term provisions	5	176	187	217
Total Equity & Liabilities	13,909	17,435	19,150	20,972
APPLICATION OF FUNDS :				
Non Current Assets	5,276	5,263	5,536	5,639
Gross block (Total)	6,285	6,948	7,548	8,148
Less : accumulated depreciation	1,317	1,739	2,200	2,697
Net block (Total)	4,968	5,209	5,348	5,451
Capital work in progress	144	16	20	20
Noncurrent investment	-	-	130	130
Long term loans and advances	8	9	9	9
Other non-current assets	156	29	29	29
Current Assets	8,632	12,173	13,614	15,332
Current investment	-	-	-	-
Inventories	3,682	5,623	6,033	6,884
Sundry debtors	3,722	5,164	5,598	6,449
Cash and bank	249	176	677	477
Short loans and advances	979	1,210	1,306	1,522
Others current assets	-	-	-	-
Total Assets	13,909	17,435	19,150	20,972

Net Working Capital*	4,819	6,495	7,088	8,096
Total Gross Debt*	4,371.9	4,972	5,972	6,072
Total Net Debt	4,122	4,796	5,294	5,595
Capital Employed*	10,319	11,883	13,252	14,162

Source: Company, AMSEC Research

Ratios

Particulars	FY17	FY18	FY19E	FY20E
PER SHARE				
EPS Rs (adjusted)	8.5	9.7	7.5	10.4
CEPS Rs	11.6	14.2	12.0	15.2
Book Value Rs	52.0	62.3	65.9	73.8
VALUATION				
EV / Net Sales	0.9	0.7	0.7	0.6
EV / EBITDA	6.3	5.3	6.1	5.2
P / E Ratio	7.8	8.2	17.2	9.1
P / BV Ratio	1.8	1.5	1.4	1.3
GROWTH YOY%				
Sales Growth	9.9	25.9	12.2	16.5
EBITDA Growth	9.2	25.2	(10.4)	19.2
Net Profit Growth	5.0	14.4	(22.7)	37.8
Gross Fixed Asset Growth	21.3	10.5	8.6	7.9
PROFITABILITY (%)				
Gross Profit/ Net sales	21.7	23.8	20.9	21.1
EBITDA / Net Sales	13.6	13.4	10.9	11.1
EBIT / Net sales	11.7	11.3	8.8	9.2
NPM / Total income	5.4	4.9	3.4	4.0
Raw Material/Net Sales	67.7	64.7	69.0	68.8
Int/PBIT	35.7	34.3	49.8	40.3
RONW	26.0	20.1	8.6	14.9
ROCE	19.4	20.8	16.1	17.9
Tax / PBT	29.7	34.7	31.0	28.0
TURNOVER				
Net Working Cycle	112	116	114	112
Debtors Velocity (Days)	84	92	90	89
Inventory (Days)	97	116	109	107
Creditors Velocity (Days)	97	135	119	116
Current Ratio	2.4	2.2	2.3	2.3
Quick Ratio	1.4	1.2	1.3	1.2
LIQUIDITY				
Gross Asset Ratio	2.8	3.1	3.1	3.4
Total Asset Ratio	1.2	1.3	1.2	1.3
Net Debt-Equity Ratio	0.8	0.8	0.8	0.7
Interest Coverage (x)	2.8	2.9	2.0	2.5
PAYOUT				
Payout %	22	20	26	24
Dividend %	160	165	165	210
Yield %	1.7	1.7	1.7	2.2

Recommendation rationale**Sector rating**

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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