



East India Securities Ltd
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Skipper Ltd

1QFY19 Result Update

Target: Rs 242

Previous Rating: Buy

Current Rating: Buy

One off's mar Q1 show. Polymer strategy to payoff in long term

CMP (Rs)	120
Target Price(Rs)	242
Upside (%)	101
Prev. Target (Rs)	262
Share Holding (%)	
Promoter	70.2
Institutions	17.4
Others	12.4
Total	100.0
Avg Vol (6m) (000)	
FV	1
Beta	0.77
Mcap (Rs Mn)	12,319
52 week H/L	293 / 119
Bloomberg/Reuters	SKIPPER IN / SKIP.BO
Group	B / S&P BSE SmallCap
Sensex/Nifty	37,948 / 11471
ABS (%)	S&P BSE SmallCap
3 M	(5.9) (39.9)
1 Yr	16.8 (38.6)

1QFY19 result highlights :

Revenue: Skipper's reported 20% YoY growth in revenues to Rs 4,787 mn for 1QFY19.

EBITDA: Company has seen sharp rise in raw material to sales ratio which has risen to 68% from 61.9% in 1QFY18 and 57.6% in 4QFY18. This is mainly due to bunching up of fixed price contracts in engineering division. Further higher selling expenses in polymer division have been incurred to drive sales growth. The company has also booked MTM loss (included in other expenses) to the tune of ~ Rs 5.8 crore (Rs 109 mn gain in 1QFY18). All these factors led to 12.9% YoY decline in EBITDA and 58.6% decline QoQ to Rs 450 mn. EBITDA margin declined from 12.9% in 1QFY18 and 14.6% in FY18 to 9.4% in 1QFY19. Excluding the forex loss, which is largely an accounting entry, EBITDA margin stands at 10.6%

Net profit: A sharp rise in finance costs ,62.6% YoY and 14.5% QoQ to Rs 274 mn (due to higher inventory and delay in debtor's collection), resulted into 74.2% YoY and ~91.4% QoQ fall in PBT to Rs 64 mn and 71.8% YoY and 90.9% QoQ in PAT to Rs 45 mn.

Outlook and Valuation

The company's performance at profitability level was disappointing due to multiple headwinds getting bunched up (RM Cost escalation & Inventory stocking costs coupled with aggressive marketing push in polymer business). Polymer revenue grew 29.5% YoY as the new strategy seems to be working well for the company, albeit at the cost of margins. Polymer margins could be subdued for few more quarters. We have revised our EPS estimates, which stands at Rs 12.2 and Rs 15.7 for FY19E / 20E resp. We expect CAGR growth of 17% in net profit over FY18_20E. We have revised our target price to Rs 242 (15.4x its FY20E EPS). The stock has fallen sharply post 1QFY19 results. We believe that one off's relating to engineering business will even out and the spend on sales push in polymer business is an investment to drive growth. The fall in stock price offers an excellent buying opportunity. We maintain Buy recommendation on the stock

Rs mn	Revenues	EBITDAM (%)	PAT	EPS	PE (x)	PBV (x)	EV/EBITDA (x)	RoCE (%)	RoE (%)
FY16	15,062	15.9%	951	9.3	12.9	3.3	7.0	28.8	27.4
FY17	16,646	13.2%	1,242	12.1	9.9	2.3	7.4	26.1	23.4
FY18	20,737	13.4%	1,178	11.5	10.5	1.9	6.1	24.0	18.6
FY19E	24,626	12.2%	1,256	12.2	9.8	1.7	5.8	23.1	16.9
FY20E	27,525	12.8%	1,612	15.7	7.7	1.4	4.6	21.0	18.4

Quarterly Performance

Rs Mn	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18	FY17	YoY %Chg.
Total Revenue	4,787	3,988	20.0%	5,929	-19.3%	20,737	16,646	24.6%
Raw Material	3,253	2,470	31.7%	3,416	-4.8%	13,246	10,908	21.4%
Other expenses	850	792	7.3%	1,190	-28.6%	3,532	2,271	55.5%
Employee Cost	235	210	11.7%	237	-1.1%	934	745	25.4%
Total Expenditure	4,337	3,472	24.9%	4,843	-10.4%	17,712	13,924	27.2%
EBITDA	450	516	-12.9%	1,086	-58.6%	3,025	2,722	11.1%
Depreciation	115	107	7.2%	113	1.5%	459	316	45.4%
Other Income	3	8	-56.9%	8	-58.7%	22	32	-30.6%
EBIT	338	416	-18.8%	980	-65.5%	2,588	2,438	6.2%
Finance cost	274	169	62.6%	239	14.5%	784	671	16.9%
Exceptional & forex Items	-	-	-	-	-	-	-	-
PBT	64	248	-74.2%	741	-91.4%	1,804	1,767	2.1%
Tax	19	88	-78.6%	247	-92.4%	626	525	19.3%
PAT	45	160	-71.8%	493	-90.9%	1,178	1,242	-5.2%
Adj EPS	0.4	1.6	-71.8%	4.8	-90.9%	12	12	-5.2%
No of shares	102.40	102.40		102.40		102	102	

% of Total Revenue	1QFY19	1QFY18	4QFY18	FY18	FY17	YoY %Chg.
Raw Material	68.0%	61.9%	57.6%	63.9%	65.5%	
Other expense	17.8%	19.9%	20.1%	17.0%	13.6%	
Employee Cost	4.9%	5.3%	4.0%	4.5%	4.5%	
Total Expenditure	90.6%	87.1%	81.7%	85.4%	83.6%	
EBITDA	9.4%	12.9%	18.3%	14.6%	16.4%	
Other Income	0.1%	0.2%	0.1%	0.1%	0.2%	
PAT	0.9%	4.0%	8.3%	5.7%	7.5%	
Tax	29.5%	35.5%	33.4%	34.7%	29.7%	

Segmental performance

Rs Mn	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18	FY17	YoY %Chg.
Engineering	4,041	3,651	10.7%	4,924	-17.9%	18,072	15,034	20.2%
Polymers	561	433	29.5%	748	-25.0%	2,149	2,132	0.8%
Infrastructure projects	185	243	-23.7%	257	-27.9%	855	805	
Gross sales	4,787	4,327	10.6%	5,929	-19.3%	21,076	17,972	
Excise	-	339	NM	-	NM	339	1,326	-74.4%
Total Revenue	4,787	3,988	20.0%	5,929	-19.3%	20,737	16,646	24.6%
EBIT								
Engineering	402	439	-8.5%	964	-58.3%	2,648	2,336	0.1
Margin %	9.9%	12.0%		19.6%		14.7%	15.5%	
Polymers	(7)	31	PL	56	PL	151	166	(0.1)
Margin %	-1.3%	7.1%		7.5%		7.0%	7.8%	
Infrastructure projects	23.8	29.5	-19.2%	35	-32.7%	108	114	
Margin %	12.9%	12.1%		13.8%		12.6%	14.2%	
Overall EBIT before unallocable items	418	500	-16.3%	1,055	-60.3%	2,907	2,616	0.1
Overall EBIT margin (%)	8.7%	12.5%		17.8%		14.0%	15.7%	

Revenues

- Engineering division reported 10.7% YoY rise in gross sales to Rs 4,041 mn, reducing its contribution to 84% from 86%. The sales were impacted mainly due to the proportion of fixed cost contracts (although quantum not disclosed) New product launches in telecom towers, railways has been at the cost of margin to create the market for this products.
- Polymer division seen revival and revenues surged 29.5% to Rs 561 mn, increased its contribution to ~12% from 10% With the help of Vector consultancy (appointed to expand sales and reach of the products) seen volume and value growth To improve supply management, spend has increased on branding and advertisement along with incentives to dealers. (The spend would continue for next 3-4 quarter, hence sales will grow with margin under pressure).
- Infrastructure sales were muted to Rs 185 mn, down 23.7% while EBIT was down by 19.2% YoY to Rs 23.8 mn.

EBIT

- EBIT for engineering fell by 8.5% YoY to Rs 402 mn; EBIT margin were down from 12% in 1QFY18 to 9.9%
- Polymer division reported EBIT loss of 7 mn Vs profit of Rs31 mn in 1QFY18; EBIT margin was (1.3%) against 7.1%
- EBIT for Infra project was down by 19.2% YoY to Rs 24 mn; however EBIT margin improved 80 bps

FY18 -Annual Report key takeaways:

- Approvals received during the year
 - Successfully cleared the Canadian Welding Bureau (CWB) Audit, which will enable Skipper to supply power transmission towers and poles to the North American market.
 - Certified by The Equipment and Materials Test Laboratory (LAPEM) to enter the Mexican power transmission market.
 - Approvals received from the core in railways for the manufacturing of traction masts.
 - The Guwahati plant received approval from Power Grid Corporation of India Limited for supply of galvanized tower structures and parts.

1QFY19 developments

1. Gained entry into the newer market geographies - bagged orders in the countries of Panama & Paraguay
2. Cleared SIRIM audit which enables the company to export to the Malaysian market.
3. Order inflow during the reported quarter was at Rs 2.25 bn..
4. Implemented Vector Consultancy's "Theory of Constraint" which will enable them to increase company's polymer product reach as well as strengthened the brand to drive volume growth of piping segment. This has been seen in 29.5% rise in polymer sales in 1QFY19 although the cost led to profitability in red.

The Theory of Constraints is a methodology for identifying the most important limiting factor (i.e. constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor.

Revision in estimates

The performance of 1QFY19 forced us to revisit our financial estimates and accordingly we are increasing company's spend on selling expenses which resulted into drop in our EBITDA expectation. Further, we have increased working capital requirement due to higher inventory and delay in bills receivable , and therefore the finance cost has also been increased. Accordingly our new EPS stands at Rs 12.2 and Rs 15.7 for FY19E / 20 E respectively.

Rs Mn	FY19 Old	FY19 New	% change	FY20 Old	FY20 New	% change
Revenues	24,626	24,626	0.0%	27,525.4	27,525	0.0%
EBITDA	3,429	3,010	-12.2%	3,752.5	3,532	-5.9%
EBITAM (%)	13.9%	12.2%		13.6%	12.8%	
Net profit	1,518	1,256	-17.3%	1,751.6	1,612	-8.0%
EPS	14.8	12.2	-17.3%	17.1	15.7	-8.0%

Financial Summary

Income statement (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Total revenues	15,062	16,646	20,737	24,626	27,525
% growth	14.7%	10.5%	24.6%	18.8%	11.8%
Operating expenses	(12,666)	(14,445)	(17,967)	(21,616)	(23,993)
EBITDA	2396	2,201	2,770	3,010	3,532
% growth	6.1%	-8.1%	25.8%	8.7%	17.4%
Depreciation	(241)	(316)	(459)	(508)	(547)
EBIT	2155	1,886	2,311	2,502	2,985
Interest	(648)	(676)	(793)	(702)	(723)
Other Income	52	558	298	123	206
Exceptional items	(125)	(1)	(12)	-	-
PBT	1433	1,767	1,804	1,923	2,469
Tax	(482)	(525)	(626)	(667)	(857)
PAT before MI and others	951	1,242	1,178	1,256	1,612
EPS	9.3	12.1	11.5	12.2	15.7
% growth	6.7%	30.6%	-5.4%	6.6%	28.4%

Cash flow (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Profit before tax	1,433	1,767	1,804	1,923	2,469
Depreciation	241	316	459	508	547
Change in working capital	(551)	(283)	(2,177)	(1,541)	(152)
Total tax paid	(432)	(452)	(476)	(667)	(857)
Others	(214)	413	1,194	702	723
Cash flow from operation (a)	477	1,760	804	924	2,730
Capital expenditure	(947)	(939)	(499)	(600)	(500)
Change in investments	-	117	67	-	-
Others	-	30	14	-	-
Cash flow from investing (b)	(947)	(791)	(419)	(600)	(500)
Free cash flow (a+b)	(470)	969	386	324	2,230
Equity / pref raised / redeemed	-	-	27	0	-
Debt raised/(repaid)	1,073	(257)	564	800	(500)
Dividend (incl. tax)	(160)	(172)	(191)	(207)	(266)
Others	(583)	(671)	(793)	(702)	(723)
Cash flow from financing (c)	330	(1,100)	(392)	(109)	(1,489)
Net chg in cash (a+b+c)	(140)	(132)	(7)	215	741

Balance Sheet (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	102	102	103	103	103
Pref Share Capital	-	-	-	-	-
Reserves & Surplus	3,675	5,191	6,223	7,272	8,618
Total Networth	3,778	5,321	6,373	7,422	8,768
Total Debt	4,504	4,154	4,613	5,413	4,913
Other non-current liabilities	328	651	588	588	588
Other current liability	3,255	3,782	5,861	6,214	6,864
Total Liabilities	11,902	13,909	17,435	19,638	21,133
Net Fixed Assets	4,215	5,112	5,224	5,317	5,270
Investments	-	-	-	-	-
Long term advance & Other NCA	22	164	38	38	38
Debtors and Inventory	6,224	7,404	10,787	12,542	13,186
(A) Cash & current investment	146	249	176	391	1,132
(B) Other current assets	1,259	979	1,210	1,349	1,508
Total Assets	11,866	13,909	17,435	19,638	21,133

Ratio analysis	FY16	FY17	FY18	FY19E	FY20E
EBIDTA margin (%)	15.9	13.2	13.4	12.2	12.8
PAT margin (%)	6.3	7.5	5.7	5.1	5.9
ROCE (%)	28.8	26.1	24.0	21.0	23.1
ROE (%)	27.4	23.4	18.6	16.9	18.4
Inventory days	96	123	155	140	130
Receivable days	90	82	91	95	90
Payable days	82	97	135	120	120
Debt to equity	1.2	0.8	0.7	0.7	0.6

Valuation parameters	FY16	FY17	FY18	FY19E	FY20E
EPS	9.3	12.1	11.5	12.2	15.7
P/E (x)	12.9	9.9	10.5	9.8	7.7
EV/ EBITDA (x)	7.0	7.4	6.1	5.8	4.6
EV/ Sales (x)	1.1	1.0	0.8	0.7	0.6
P/BV (x)	3.3	2.3	1.9	1.7	1.4

Stock rating (1 year target scale)

<0%	- Sell
0-10%	- Reduce
10-30%	- Accumulate
>30%	- Buy

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Corporate Office: 201, Garnet palladium, Pandit Motilal Nehru Marg, Panch Bawadi, Malad East, Mumbai – 400 097. Tel: +91 22 6192 5353

Head Office: DA-14,Salt Lake City, Sector-I, Kolkata – 700064. Tel: +91 33 40205901.

Web: www.eisec.com