

Institutional Equity Research

**Skipper**

Capital Goods | India

4QFY18 Result Update | May 18, 2018

CMP (Rs)	180
Upside/ (Downside) (%)	75
Bloomberg Ticker	SKIPPER IN
Market Cap. (Rs bn)	18.3
Free Float (%)	29.7
Shares O/S (mn)	102.3



Target Price: Rs315

## Muted Performance on Lower Execution

Skipper has delivered a weak performance in 4QFY18 with its reported revenue declining by 2.9% YoY to Rs5.9bn, which however, adjusting for Excise Duty of 4QFY17, grew by 5.0% YoY led by lower execution in Engineering Products business and slower growth in Polymer division. Its EBITDA (+7.5% YoY) and PAT (-15.1 % YoY) stood at Rs1086mn and Rs493mn, respectively. 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 by 30% in last 3 months, the stock is available at attractive level now. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs315.**

### Muted Top-line Growth on Dismal Engineering Biz

Skipper's revenue – adjusting for Excise Duty of 4QFY17 – grew by just 5.0% YoY owing to lower execution in Engineering Products business and slower growth in Polymer division. Transmission business' (83% of total sales) revenue fell by 2.5% YoY to Rs4924mn, while its PVC business' (12.6% of total sales) revenue marginally grew by 0.4% YoY to Rs748mn. Notably, Infrastructure Products business' (4.3% of total sales) revenue dipped by 16.9% YoY to Rs257mn on high base.

### Steady Operating Performance; PAT Declines

Skipper's EBITDA grew by 7.5% YoY to Rs1086mn, while its EBITDA margin rose by 195bps YoY to 17.8% owing to execution of high-value engineering projects. Notably, margin from Engineering Products business improved by 245bps to 19.6%, which was offset by 36bps & 50bps fall in margins in Polymer and Infra projects to 7.5% and 13.8%, respectively. Skipper's PAT declined by 15.1% YoY to Rs493 mn owing to 76% YoY rise in interest cost to Rs239mn.

### Order Book Continues to Remain Well-diversified

Skipper bagged orders worth Rs6.2bn in 4QFY18 for engineering products supply from PGCIL, SEBs, Telecom and Solar firms along with supply orders across Europe & South East Asia. Its order book continues to remain well-diversified between PGCIL, domestic SEBs/private players and global clients. Its order book as of FY18-end stood at Rs26.27bn comprises of PGCIL (44%), domestic (44%) and exports (14%). Skipper expects growth to remain strong and gain further pace owing to increased opportunities from PGCIL, SEBs, TBCB projects, renewable projects, exports and infrastructure push in North East & East. Portfolio diversification strategy may enable Skipper to tap growing opportunities in sectors i.e. Railways, Solar & Telecom.

### Outlook & Valuation

We continue to believe that increased revenue visibility in T&D business on the back of robust order book and expansion into PVC business is likely to aid Skipper to sustain healthy earnings profile. Its sales and PAT are likely to clock 18.7% and 19.4% CAGR, respectively over FY17-FY20E, while RoCE is seen at 26.4% by FY20E. Trimming down our earnings estimate by 8% on slower execution, **we maintain our BUY recommendation on the stock with a downwardly revised Target Price of Rs315 valuing at 17x FY20E earnings of Rs18.5/share.**

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(20.3)	(29.8)	(10.9)
Relative to Nifty	(20.9)	(30.7)	(23.3)
Shareholding Pattern (%)		Dec'17	Mar'18
Promoter		70.4	70.2
Public		29.7	29.8

### 1 Year Stock Price Performance



Note: \* CMP as on May 18, 2018

### Key Financials (Rs mn)

	FY17	FY18E	FY19E	FY20E
Net sales	17,030	21,076	24,554	28,499
PAT	1,115	1,178	1,476	1,897
EPS (Rs)	10.9	11.5	14.4	18.5
PE (x)	16.4	15.6	12.4	9.7
EV/EBITDA (x)	9.4	7.8	7.0	5.8
Book value (Rs/share)	52.0	62.3	74.9	91.6
P/BV (x)	3.4	2.9	2.4	2.0
ROCE	22.3	24.1	24.3	26.4
RONW	21.0	18.5	19.3	20.2

Source: Company, RSec Research

### Research Analysts

Rupesh Sankhe

Contact : (022) 33201606

Email : rupesh.sankhe@relianceada.com

Arafat Saiyed

Contact : (022) 33201192

Email : arafat.saiyed@relianceada.com

Institutional Equity Research

**Skipper**

Capital Goods| India

CMP (Rs)	180
Upside/ (Downside) (%)	75
Bloomberg Ticker	Skipper IN



Target Price: Rs315

## Key Developments

- ▶ **Capacity Addition – Engineering Products:** With 35,000MT capacity addition in FY18, Skipper's total installed capacity now stands at 265,000MT.
- ▶ **Core Approval from Railways:** Following the core approval from the Railways, Skipper is now gearing up to sharpen its focus on Railway electrification. It intends to manufacture and supply various types of overhead wiring support structures like portals, masts, beams, gantries, sub-station and customised steel structures. Several projects worth over Rs400bn are lined up to connect capital cities of 5 North Eastern states and areas bordering China, Myanmar and Bangladesh with the rest of the country.
- ▶ **Engages Vector Consulting Group for Polymer Biz:** Skipper has engaged Vector Consultancy for boosting sales and distribution of its Polymer pipes business across India. Vector – which implements the principles of Theory of Constraints – has worked with several reputed brands across different sectors in India.

## Risks to the View

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

## Exhibit 1: Quarterly Performance

(Rs mn)	4QFY18	4QFY17	QoQ (%)	3QFY18	YoY (%)	FY18	FY17	YoY (%)
<b>Net Sales</b>	<b>5,929</b>	<b>6,106</b>	<b>(2.9)</b>	<b>5,664</b>	<b>4.7</b>	<b>21,076</b>	<b>17,972</b>	<b>17.3</b>
Raw Material	3,417	4,228	(19.2)	3,902	(12.4)	13,247	12,234	8.3
% of Sales	57.6	69.3		68.9		62.9	68.1	
Employee Expenses	237	206	15.1	236	0.7	934	744	25.6
% of Sales	4.0	3.4		4.2		4.4	4.1	148.1
Other Expenses	1,189	661	79.7	786	51.3	3,870	2,272	70.3
% of Sales	20.0	10.8		13.9		18.4	12.6	407.0
Total Expenditure	4,843	5,096	(5.0)	4,923	(1.6)	18,051	15,250	18.4
<b>EBITDA</b>	<b>1,086</b>	<b>1,010</b>	<b>7.5</b>	<b>741</b>	<b>46.6</b>	<b>3,025</b>	<b>2,722</b>	<b>11.1</b>
EBITDA Margin (%)	18.3	16.5		13.1		14.4	15.1	
Other Income	8	8	(5.4)	3	137.9	22	32	(30.6)
Interest	239	136	76.0	176	35.8	784	671	16.9
Depreciation	113	100	13.2	118	(3.5)	459	316	45.5
EBIT	980	918	6.7	626	56.5	2,588	2,438	6.2
PBT	741	782	(5.3)	450	64.5	1,804	1,767	2.1
Tax	247	201	23.3	158	56.3	626	525	19.3
Tax rate (%)	33.4	25.7		35.1		34.7	29.7	
<b>Reported PAT</b>	<b>493</b>	<b>582</b>	<b>(15.1)</b>	<b>292</b>	<b>69.0</b>	<b>1,178</b>	<b>1,242</b>	<b>(5.2)</b>

Source: Company, RSec Research

Institutional Equity Research

**SKIPPER**

Capital Goods| India

CMP (Rs)	180
Upside/ (Downside) (%)	75
Bloomberg Ticker	SKIPPER IN



Target Price: Rs315

**Exhibit 2: Segmental Revenues**

(Rs mn)	4QFY18	4QFY17	QoQ (%)	3QFY18	YoY (%)	FY18	FY17	YoY (%)
<b>Sales</b>	<b>5,929</b>	<b>6,106</b>	<b>(2.9)</b>	<b>5,664</b>	<b>4.7</b>	<b>9,483</b>	<b>7,311</b>	<b>29.7</b>
Engineering Products	4,924	5,052	(2.5)	4,863	1.2	18,072	15,034	20.2
Polymer Products	748	745	0.4	540	38.6	2,149	2,132	0.8
Infrastructure Projects	257	309	(16.9)	261	(1.6)	855	805	6.2
<b>EBIT</b>	<b>1,055</b>	<b>967</b>	<b>9.0</b>	<b>707</b>	<b>49.2</b>	<b>2,907</b>	<b>2,616</b>	<b>11.1</b>
Engineering Products	964	865	11.4	639	50.9	2,648	2,336	13.4
Polymer Products	56	58	(4.3)	36	55.1	151	166	(9.0)
Infrastructure Projects	35	44	(19.8)	32	10.4	108	114	(5.5)
<b>Margin (%)</b>	<b>18</b>	<b>16</b>	<b>195</b>	<b>12.5</b>	<b>531</b>	<b>13.8</b>	<b>14.6</b>	<b>(76)</b>
Engineering Products	19.6	17.1	245	13.1	644	14.7	15.5	(88)
Polymer Products	7.5	7.8	(36)	6.7	80	7.0	7.8	(75)
Infrastructure Projects	13.8	14.3	(50)	12.3	150	12.6	14.2	(157)

Source: Company, RSec Research

Institutional Equity Research

**Skipper**

Capital Goods| India

CMP (Rs)	180
Upside/ (Downside) (%)	75
Bloomberg Ticker	SKIPPER IN



Target Price: Rs315

**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>24,554</b>	<b>28,499</b>
% yoy change	13.1	23.8	16.5	16.1
<b>RM cost</b>	<b>10,908</b>	<b>13,585</b>	<b>15,518</b>	<b>18,040</b>
Employee expenses	732	934	1,019	1,197
Other expenses	2,930	3,532	4,690	5,358
<b>Total operating expenditure</b>	<b>14,569</b>	<b>18,051</b>	<b>21,227</b>	<b>24,595</b>
<b>EBIDTA</b>	<b>2,460</b>	<b>3,025</b>	<b>3,327</b>	<b>3,904</b>
Depreciation	315	459	426	450
<b>EBIT</b>	<b>2,145</b>	<b>2,566</b>	<b>2,901</b>	<b>3,454</b>
Other income	31	22	23	24
Interest costs	611	784	705	625
<b>PBT</b>	<b>1,565</b>	<b>1,804</b>	<b>2,219</b>	<b>2,853</b>
Taxes	450	626	743	956
<b>Reported PAT</b>	<b>1,115</b>	<b>1,178</b>	<b>1,476</b>	<b>1,897</b>
% yoy change	17.2	5.6	25.3	28.6
<b>Reported EPS</b>	<b>10.9</b>	<b>11.5</b>	<b>14.4</b>	<b>18.5</b>

**Balance Sheet**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Liabilities</b>				
Share capital	102	102	102	102
Reserves & Surplus	5,219	6,270	7,561	9,273
Total shareholder's funds	5,321	6,372	7,663	9,376
Secured loans	1,754	1,667	1,610	1,045
Unsecured loans	3,291	3,904	3,812	3,765
Total borrowings	5,044	5,571	5,422	4,810
Deferred tax liability	651	588	588	588
<b>Capital employed</b>	<b>11,017</b>	<b>12,532</b>	<b>13,673</b>	<b>14,775</b>
<b>Assets</b>				
Gross Block	6,279	6,979	7,104	7,504
Accumulated Depreciation	1,319	1,778	2,204	2,654
<b>Net Block</b>	<b>4,960</b>	<b>5,200</b>	<b>4,899</b>	<b>4,849</b>
Capital Work in Progress	144	16	500	900
<b>Net Current Assets:</b>				
Inventories	3,682	5,623	5,269	4,162
Sundry Debtors	3,722	5,164	5,115	6,333
Cash and Bank	249	176	461	627
Loans and Advances	1,152	1,256	982	1,282
<b>Total Current Assets</b>	<b>8,805</b>	<b>12,219</b>	<b>11,828</b>	<b>12,404</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>8,275</b>	<b>9,026</b>
<b>Capital Deployed</b>	<b>11,017</b>	<b>12,532</b>	<b>13,673</b>	<b>14,775</b>

Institutional Equity Research

**Skipper**

Capital Goods| India

CMP (Rs)	180
Upside/ (Downside) (%)	75
Bloomberg Ticker	SKIPPER IN



Target Price: Rs315

**Cash Flow Statement**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT	1,565	1,804	2,219	2,853
Depreciation	315	459	426	450
Interest provided	611	784	705	625
Other adjustments	565	59		
<b>Oper cash flow before WC</b>	<b>3,057</b>	<b>3,106</b>	<b>3,350</b>	<b>3,929</b>
Change in working capital	299	1,539	673	586
Tax Paid	450	626	743	956
Operating cash flow	2,308	941	1,933	2,387
FCF	1,141	369	1,324	1,587
Capex	1,167	572	609	800
<b>Investing cash flow</b>	<b>(1,167)</b>	<b>(572)</b>	<b>(609)</b>	<b>(800)</b>
Issue/repayment of debt	(604)	526	(149)	(611)
Dividends paid	(174 )	(185)	(185)	(185)
Interest paid	(611)	(784)	(705)	(625)
<b>Financing cash flow</b>	<b>(1,390)</b>	<b>(443)</b>	<b>(1,039)</b>	<b>(1,421)</b>
Opening cash balance	498	249	176	461
Net change in cash	(249)	(74)	285	166
Closing cash balance	249	176	461	627

**Key Ratio**

Y/E March	FY17	FY18E	FY19E	FY20E
EBITDA margins (%)	14.4	14.4	13.6	13.7
PBT margins (%)	9.2	8.6	9.0	10.0
PAT margins (%)	6.5	5.6	6.0	6.7
ROCE (%)	22.3	24.1	24.3	26.4
RONW (%)	21.0	18.5	19.3	20.2
Debt/Equity Ratio (%)	0.9	0.9	0.7	0.5
PE (x)	16.4	15.6	12.4	9.7
PBV (x)	3.4	2.9	2.4	2.0
EV/EBIDTA (x)	9.4	7.8	7.0	5.8
EV/Sales (x)	1.4	1.1	0.9	0.8

## Institutional Equity Research

**SKIPPER**

Capital Goods| India

CMP (Rs)	180
Upside/ (Downside) (%)	75
Bloomberg Ticker	SKIPPER IN



Target Price: Rs315

## Rating Guides

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

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website [www.reliancecapital.co.in](http://www.reliancecapital.co.in). RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

**General Disclaimers:** This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

**Risks:** Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

**Disclaimers in respect of jurisdiction:** The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

**Disclosure of Interest:** The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services.RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies)?: No

**Copyright:** The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/ strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

**RSL CIN: U65990MH2005PLC154052. SEBI registration no. ( Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839,**  
**Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384; AMFI ARN No.29889.**