

Institutional Equity Research

Skipper

Capital Goods | India

2QFY19 Result Update | November 13, 2018

CMP (Rs)	95
Upside/ (Downside) (%)	55
Bloomberg Ticker	SKIPPER IN
Market Cap. (Rs bn)	9.7
Free Float (%)	28.6
Shares O/S (mn)	102.3



Target Price: Rs147

Poor Performance Continues; Recovery Likely in Next Quarter

Skipper continued to deliver a very poor performance in 2QFY19 as well, with its PAT declining by 89% YoY to Rs25mn. Its revenue grew by 1.6% YoY to Rs5.2bn led by 16% de-growth in Polymer division and lower execution in Engineering Products business. 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. Further, the stock is available at attractive valuation following a sharp correction during last 6 months. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs147 (from Rs214 earlier).**

Flat Revenue on Weak Performance of Engineering & Polymer Biz

Skipper's revenue grew by marginally 1.6% YoY owing to lower growth in Polymer division by 16.1% YoY and weak execution in Engineering Products business (+3.1% YoY). Revenue from Engineering Products segment – which accounted for 91% of total sales – grew by 3.1% YoY to Rs4.76bn due to lack of short-term orders and slower project execution on account of strong monsoon and hurdles in multiple regions owing to elections. Maintaining that T&D revenue spilled over to 2HFY19, the Management expects strong growth trajectory in Telecom & Railway to continue, while the contribution of non-T&D business is likely to grow to 20% of total revenue. Revenue from Polymer segment – which accounted for 6.8% of total sales – fell by 16% YoY to Rs359mn on account of strategic shifting of capacity from Telengana/Secunderabad to Ulberia (WB). Revenue from Infrastructure Products business grew by 10.4% YoY to Rs105mn.

PAT Declines on Lower Margin

Skipper's EBITDA declined by 43% YoY to Rs388mn, while its EBITDA margin contracted by 584bps YoY to 7.4%. However, adjusted for Rs146mn forex loss, its EBITDA margin fell by 120bps YoY to 10.2% led by sustained high raw material prices (Steel and Zinc had impacted its fixed price contracts, slow off-take and delay in execution of T&D projects leading to lower utilisation of plant capacities. Fall in polymer margin to 1.6% in 2QFY19 (from 6.6% in 2QFY18) is attributable to increasing penetration cost in newer markets owing to increased brand building spend and dealer incentives, while Engineering Products margin fell to 11% from 12.9% in 2QFY18 on account of lower margin in telecom business. Notably, Infrastructure Products business margin plunged to 2.1% from 11.5% in 2QFY18. Interest cost rose by Rs50mn to Rs257mn owing to rise in working capital borrowing, which impacted Skipper's profitability.

Outlook & Valuation

Looking ahead, we continue to believe that increased revenue visibility in T&D business on the back of robust order book and expansion into PVC business would aid Skipper to sustain healthy earnings profile. We expect margins pressure to continue in Polymer business in next 2-3 quarters. **Trimming down our earnings estimate by 32% for FY20 on account of lower margin, we maintain our BUY recommendation on the stock with a revised Target Price of Rs147, valuing at 17x FY20E earnings of Rs8.6/share.**

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E
Net sales	17,030	21,076	23,251	26,478
PAT	1,115	1,178	495	885
EPS (Rs)	10.9	11.5	4.8	8.6
PER (x)	8.7	8.3	19.6	11.0
EV/Ebitda (x)	5.9	5.0	6.6	5.2
Book value (Rs/share)	52.0	62.3	65.3	72.2
P/BV (x)	1.8	1.5	1.5	1.3
ROCE(%)	22.3	24.1	17.7	20.5
RONW (%)	21.0	18.5	7.4	12.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(4.0)	(36.5)	(61.0)
Relative to Nifty	(4.6)	(29.1)	(65.5)

Shareholding Pattern (%)	Jun'18	Sep'18
Promoter	70.2	71.4
Public	29.8	28.6



Note: * CMP as on Nov. 13, 2018

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Order Book Continues to Remain Well-diversified

Skipper secured new orders worth Rs.4.1bn during Q2FY19 for engineering products from projects of PGCIL, State Electricity Boards and others. Non-T&D products i.e. Telecom Towers & Railway Structures revenue contribution is expected to be 20% by FY19-end. The Railways business is on a high growth trajectory on the back of consistent order flows. Its closing order book as of Sep'18-end stood at Rs24.5bn from PGCIL (41%), domestic private players/ SEBs/telecom (43%) and exports (16%). The Management expects growth to remain strong and gain further momentum on the back of increased opportunities from PGCIL, SEBs, TBCB projects, renewable projects, exports and infrastructure push in the North East and Eastern India. Strategy of diversifying the product portfolio may enable Skipper to tap the growing opportunities in sectors like railways, solar and telecom, in our view.

Update on Demerger

Last month, the Board of Directors of the Company approved the scheme of arrangement between Skipper and Skipper Pipes. The scheme of demerger is subject to the requisite statutory and regulatory approvals and sanctions by the respective shareholders and creditors of each of the Companies involved in the scheme.

Risks to the View

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

Exhibit 1: Quarterly Performance

(Rs mn)	2Q FY19	2Q FY18	y-y (%)	H1 FY19	H1 FY18	y-y (%)
Net Sales	5,240	5,156	1.6	10,027	9,483	5.7
Raw Material	3,630	3,458	5.0	6,883	5,928	16.1
% of Sales	69.3	67.1		68.6	62.5	
Employee Expenses	236	251	(6.0)	471	461	2.0
% of Sales	4.5	4.9		4.7	4.9	
Other Expenses	986	765	28.9	1,835	1,896	(3.2)
% of Sales	18.8	14.8		18.3	20.0	
Total Expenditure	4,852	4,473	8.5	9,189	8,284	10.9
EBITDA	388	683	(43.2)	838	1,199	(30.1)
EBITDA Margin (%)	7.4	13.2	(5.84)	8.4	12.6	
Other Income	3	3	3.4	7	11	(38.7)
Depreciation	97	121	(19.9)	212	228	(7.1)
EBIT	295	566	(47.9)	633	982	(35.6)
Interest	257	200	28.1	531	369	43.8
PBT	38	365	(89.5)	102	613	(83.4)
Tax	13	133	(89.9)	32	221	(85.4)
Tax rate (%)	34.9	36.4	(4.0)	31.5	36.0	(12.5)
Reported PAT	25	232	(89.3)	70	392	(82.2)
EPS	0.2	2.3	(89.3)	0.7	3.8	(82.2)

Source: Company, RSec Research

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Exhibit 2: Segmental Revenues

(Rs mn)	2Q FY19	2Q FY18	y-y (%)	H1 FY19	H1 FY18	y-y (%)
Sales	5,240	5,156	1.6	10,027	9,483	5.7
Engineering Products	4,776	4,634	3.1	8,817	8,285	6.4
Polymer Products	359	428	(16.1)	920	861	6.8
Infrastructure Projects	105	95	10.4	290	338	(14.2)
EBIT	369	645	(42.8)	720	906	(20.5)
Engineering Products	380	606	(37.4)	782	775	0.9
Polymer Products	(11)	28	NA	(85)	32	NA
Infrastructure Projects	0.4	11	(96.2)	24	99	(75.6)
			bps			bps
Margin (%)	7.0	12.5	(547)	7.2	9.6	(237)
Engineering Products	7.9	13.1	(513)	8.9	9.3	(49)
Polymer Products	(3.0)	6.6	(960)	(9.3)	3.8	(1,305)
Infrastructure Projects	0.4	11.9	(1,147)	8.4	29.4	(2,103)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
Net sales	17,030	21,076	23,251	26,478
% yoy change	13.1	23.8	10.3	13.9
RM cost	10,908	13,585	15,578	17,634
Employee expenses	732	934	965	1,112
Other expenses	2,930	3,532	4,441	4,978
Total operating expenditure	14,569	18,051	20,984	23,724
EBIDTA	2,460	3,025	2,267	2,754
EBIDTA margin (%)	14.4	14.4	9.8	10.4
Depreciation	315	459	426	450
EBIT	2,145	2,566	1,841	2,303
Other income	31	22	13	14
Interest costs	611	784	1,109	986
PBT	1,565	1,804	745	1,331
Taxes	450	626	249	446
Tax rate (%)	28.8	34.7	33.5	33.5
Reported PAT	1,115	1,178	495	885
% yoy change	17.2	5.6	(58.0)	78.7
EPS	10.9	11.5	4.8	8.6

Balance Sheet

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
Liabilities				
Share capital	102	102	102	102
Reserves & Surplus	5,219	6,270	6,580	7,281
Total shareholder's funds	5,321	6,372	6,683	7,383
Secured loans	1,754	1,667	1,735	1,715
Unsecured loans	3,291	3,904	3,812	3,765
Total borrowings	5,044	5,571	5,547	5,480
Deferred tax liability	651	588	588	588
Capital employed	11,017	12,532	12,818	13,452
Assets				
Gross Block	6,279	6,979	7,104	7,504
Accumulated Depreciation	1,319	1,778	2,204	2,654
Net Block	4,960	5,200	4,899	4,849
Capital Work in Progress	144	16	125	185
Net Current Assets:				
Inventories	3,682	5,623	5,269	3,941
Sundry Debtors	3,722	5,164	4,844	5,884
Cash and Bank	249	176	304	780
Loans and Advances	1,152	1,256	930	1,191
Total Current Assets	8,805	12,219	11,347	11,796
Current liabilities	2,892	4,903	3,553	3,378
Capital Deployed	11,017	12,532	12,818	13,452

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Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
PBT	1,565	1,804	745	1,331
Depreciation	315	459	426	450
Interest provided	611	784	1,109	986
Other adjustments	565	59	-	-
Oper. cash flow before WC	3,057	3,106	2,280	2,767
Change in working capital	299	1,539	350	148
Tax Paid	450	626	249	446
Operating cash flow	2,308	941	1,681	2,173
FCF	1,141	369	1,447	1,713
Capex	1,167	572	234	460
Investing cash flow	(1,167)	(572)	(234)	(460)
Issue/repayment of debt	(604)	526	(24)	(66)
Dividends paid	174	185	185	185
Interest paid	(611)	(784)	(1,109)	(986)
Financing cash flow	(1,390)	(443)	(1,318)	(1,237)
Opening cash balance	498	249	176	304
Net change in cash	(249)	(74)	128	476
Closing cash balance	249	176	304	780

Key Ratio

Y/E March	FY17	FY18	FY19E	FY20E
EBITDA margins	14.4	14.4	9.8	10.4
PBT margins (%)	9.2	8.6	3.2	5.0
PAT margins (%)	6.5	5.6	2.1	3.3
ROCE (%)	22.3	24.1	17.7	20.5
RONW (%)	21.0	18.5	7.4	12.0
Debt/Equity Ratio	0.9	0.9	0.8	0.7
PE (x)	8.7	8.3	19.6	11.0
PB (x)	1.8	1.5	1.5	1.3
EV/EBITDA (x)	5.9	5.0	6.6	5.2
EV/Sales (x)	0.9	0.7	0.6	0.5

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Rating History

Date	Reco	CMP	TP
13-Aug-18	BUY	122	214
18-May-18	BUY	180	315
8-Feb-18	BUY	249	340
24-Nov-17	BUY	262	289
6-Sep-17	BUY	216	254
9-Feb-17	BUY	155	187
11-Jan-17	BUY	155	187

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

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