

Previous Rating: Buy

Current Rating: Buy

Dismal performance continuesBut Headwinds Likely to Abate

CMP (Rs)	62.2
Target Price(Rs)	121
Upside (%)	94.7
Previous Target (Rs)	151
Share Holding (%)	31 st December, 2018
Promoter	71.9
Institutions	16.0
Others	12.1
Total	100.0
Avg Vol (6m) (000)	17.23
FV	1
Beta	0.87
Mcap (Rs Mn)	6,380
52 week H/L	265.90 / 48.7
Bloomberg/Reuters	SKIPPER IN / SKIP.BO
Group	B / S&P BSE SmallCap
Sensex/Nifty	35,809 / 10,724
ABS (%)	BSE Sensex Skipper
3 M	(3.3) (54.1)
1 Yr	4.5 (42.3)

3QFY19 result highlights:

Revenue: Skipper 3QFY19 revenue reported 23% Y-o-Y/ 17% Q-o-Q drop to Rs.4.35 bn. Engineering business dropped 21% Y-o-Y / 20% Q-o-Q basis respectively to Rs.3.8 bn. Polymer business revenue growth disappointed again with 39% Y-o-Y/ 8% Q-o-Q decline respectively to Rs.331 mn. Infrastructure segment reported revenues of Rs.178 mn down 32% Y-o-Y but up 70% Q-o-Q. Reasons for drop in revenues as per management are:

- § Consciously slowed down supplies to the customer unwilling to give secured payment terms;
- § Slower Project Execution; Sites not ready for want of approvals;
- § Lack of short term orders in market

EBITDA: EBITDA fell by 43% Y-o-Y/ 21% Q-o-Q to Rs.422 mn while EBITDA margin contracted to 9.7% Vs 13.1% Y-o-Y/ 10.2% Q-o-Q.

- § Engineering EBITDA margin was lower at 7% (down from 10.2% Y-o-Y/ 11.0% Q-o-Q) due to sustained high prices of RM (steel & zinc).
- § Polymer EBITDA margin fell sharply to 1.0% (down from 9.6% Y-o-Y/ 1.6% Q-o-Q).
- § Infrastructure EBITDA margin was -0.1% (significantly lower than 11.8% Y-o-Y/ 2.1% Q-o-Q).
- § Due to reduction of revenues in all businesses, fixed overheads were not optimally absorbed leading to reduction in profitability.

Net profit: Net profit fell by 78% Y-o-Y/ up by 158% Q-o-Q to Rs.65 mn while PAT margin contracted to 1.5% Vs 5.2% Y-o-Y/ 0.5% Q-o-Q.

- § This is after accounting for Rs.151 mn of forex gain.
- § Depreciation was lower by ~28% Y-o-Y/ ~11% Q-o-Q due to Ind AS provisions wherein depreciation needs to be provided only for the residual useful life of the fixed assets and a lot of fixed assets of Skipper have completed their useful life.
- § Finance costs were higher by 33% Y-o-Y but lower by 8% Q-o-Q. Skipper has resorted to increase in working capital borrowings this year.

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9mFY19 result highlights :

Revenue: Skipper 9mFY19 revenue reported ~3% Y-o-Y drop to Rs.14.4 bn. Engineering business dropped ~1% Y-o-Y basis to Rs.12.7 bn. Polymer business revenue growth disappointing again with 11% Y-o-Y decline to Rs.1.3 bn. Infrastructure segment reported revenues of Rs.468 mn down 22% Y-o-Y.

EBITDA: EBITDA fell by ~20% Y-o-Y to Rs.1.47 bn while EBITDA margin contracted to 10.2% Vs 12.3% Y-o-Y. The drop in EBITDA was observed in all 3 business segments.

Net profit: Net profit fell to Rs.134 mn down 80% Y-o-Y. Although, Depreciation was lower by ~14%, net profit was lower due to Rs.54 mn of forex loss and higher finance cost by 40% Y-o-Y.

Outlook and Valuation

Multiple headwinds like higher share of fixed price contracts in engineering division coupled with high metal prices and continued poor performance from polymer division along with profitability deterioration of infra resulted into fall in EBITDA margin as well as bottom line. The management is confident that most of the headwinds will abate in next 1-2 quarters. We also expect transmission capex to revive in a big way and skippers effort to derisk PGCIL business will start paying off soon. Healthy order book of Rs 24.5 bn (1.4x FY18 Eng sales) gives good revenue visibility. We retain "Buy" rating on the stock valuing it at 7.0x FY21E giving us a target price of Rs.121/- per share.

Rs mn	Revenues	EBITDAM(%)	PAT	EPS	PE (x)	PBV (x)	EV/EBITDA (x)	RoCE (%)	RoE (%)
FY17	16,646	13.2%	1,242	12.1	5.1	1.2	4.7	26.1	23.4
FY18	20,737	13.4%	1,178	11.5	5.4	1.0	3.9	24.0	18.6
FY19E	20,351	10.8%	455	4.4	14.0	0.9	5.2	14.7	11.6
FY20E	25,163	12.7%	1,305	12.7	4.9	0.8	3.6	20.9	16.6
FY21E	27,899	13.3%	1,778	17.3	3.6	0.7	1.9	12.3	10.3

Quarterly/ 9 Monthly Performance

INR in Mn	3QFY19	3QFY18	Y-o-Y (%)	2QFY19	Q-o-Q (%)	9mFY19	9mFY18	Y-o-Y (%)
Total Revenue	4,348	5,664	-23.23	5,240	-17.01	14,375	14,809	-2.93
Raw Material	3,007	3,902	-22.96	3,630	-17.18	9,889	9,830	0.60
Other expenses	690	786	-12.16	839	-17.73	2,320	2,454	-5.45
Employee Cost	230	236	-2.53	236	-2.76	700	697	0.50
Total Expenditure	3,926	4,923	-20.26	4,705	-16.55	12,910	12,981	-0.55
EBITDA	422	741	-43.03	535	-21.07	1,465	1,828	-19.86
Depreciation	85	118	-27.51	97	-11.73	297	346	-14.05
EBIT	337	623	-45.96	438	-23.13	1,168	1,482	-21.21
Finance cost	235	176	33.33	257	-8.39	766	545	40.43
Other Income	3	3	4.55	3	2.37	10	14	-28.55
Exceptional & forex Items	0	0		(147)		(205)	112	
PBT	105	450	-76.64	38	174.62	207	1,063	-80.51
Tax	41	158	-74.32	13	204.12	73	379	-80.79
PAT	65	292	-77.89	25	158.82	134	684	-80.34
Adj EPS	1	3	-77.89	0	158.82	1	7	-80.34
No of shares	102	102		102		102	102	

% of Total Revenue	3QFY19	3QFY18	2QFY19	9mFY19	9mFY18
Raw Material	69.1%	68.9%	69.3%	68.8%	66.4%
Other expense	15.9%	13.9%	16.0%	16.1%	16.6%
Employee Cost	5.3%	4.2%	4.5%	4.9%	4.7%
Total Expenditure	90.3%	86.9%	89.8%	89.8%	87.7%
EBITDA	9.7%	13.1%	10.2%	10.2%	12.3%
Other Income	0.1%	0.1%	0.1%	0.1%	0.1%
PAT	1.5%	5.2%	0.5%	0.9%	4.6%
Tax	38.6%	35.1%	34.9%	35.1%	35.6%

Segmental Performance

INR in Mn	3QFY19	3QFY18	Y-o-Y (%)	2QFY19	Q-o-Q (%)	9mFY19	9mFY18	Y-o-Y (%)
Revenues								
Engineering	3,839	4,863	-21.05	4,776	-19.61	12,656	12,809	-1.19
Polymers	331	540	-38.71	359	-7.81	1,251	1,401	-10.71
Infrastructure projects	178	261	-31.86	105	70.15	468	599	-21.87
Total Revenue	4,348	5,664	-23.23	5,240	-17.01	14,375	14,809	-2.93
INR in Mn	3QFY19	3QFY18	Y-o-Y (%)	2QFY19	Q-o-Q (%)	9mFY19	9mFY18	Y-o-Y (%)
EBIDTA (without forex gain/ loss)								
Engineering	268	496	-46.11	527	-49.20	1,272	1,437	-11.45
Margin %	7.0%	10.2%		11.0%		10.1%	11.2%	
Polymers	3	52	-93.63	6	-44.07	16	135	-88.38
Margin %	1.0%	9.6%		1.6%		1.3%	9.6%	
Infrastructure projects	(0)	31	-100.65	2	-109.09	26	72	-64.22
Margin %	-0.1%	11.8%		2.1%		5.5%	12.0%	
Overall EBITDA	271	579	-53.27	535	-49.39	1,314	1,644	-20.09
Overall EBITDA margin (%)	6.2%	10.2%		10.2%		9.1%	11.1%	
INR in Mn	3QFY19	3QFY18	Y-o-Y (%)	2QFY19	Q-o-Q (%)	9mFY19	9mFY18	Y-o-Y (%)
EBIT								
Engineering	419	639	-34.35	380	10.47	1,201	1,684	-28.70
Margin %	10.9%	13.1%		7.9%		9.5%	13.1%	
Polymers	(11)	36	-130.85	(11)	2.78	(29)	95	-130.89
Margin %	-3.4%	6.7%		-3.0%		-2.3%	6.8%	
Infrastructure projects	(1)	32	-101.56	0	-216.28	24	73	-67.36
Margin %	-0.3%	12.3%		0.4%		5.1%	12.1%	
Overall EBIT before unallocable items	408	707	-42.31	369	10.44	1,195	1,852	-35.46
Overall EBIT margin (%)	9.4%	12.5%		7.0%		8.3%	12.5%	
	3QFY19	3QFY18		2QFY19		9mFY19	9mFY18	
% to sales								
Engineering	88.3%	85.9%		91.2%		88.0%	86.5%	
Polymers	7.6%	9.5%		6.9%		8.7%	9.5%	
Infrastructure projects	4.1%	4.6%		2.0%		3.3%	4.0%	
% to EBIT								
Engineering	102.8%	90.4%		102.8%		100.5%	90.9%	
Polymers	-2.7%	5.1%		-2.9%		-2.5%	5.1%	
Infrastructure projects	-0.1%	4.5%		0.1%		2.0%	3.9%	

Revision in Estimates



Post 3QFY19 performance, we are revising our earning estimates accommodating adjustments for higher fixed price component in engineering order book, higher raw material prices, lower average realization on account of company's strategy of garnering higher share of new railway business, polymer business challenges in terms of sales expansion efforts at higher costs and poor infra segment profitability.

Further, the company has also indicated that there is reduction in payable days affecting cash conversion cycle and need for higher working capital borrowings resulting in higher finance costs. The company further indicated, the change in depreciation policy as per guidelines of Indian accounting standards towards usable life of assets.

Accordingly our EPS estimates for FY 19/ FY 20 stand revised to Rs.4/ 13 Vs our earlier estimates of Rs.6 /14 respectively.

Rs Mn	FY19 Old	FY19 New	% change	FY20 Old	FY20 New	% change
Revenues	22,800	20,351	-10.7%	26,428	25,163	-4.8%
EBITDA	2,356	2,203	-6.5%	3,380	3,198	-5.4%
EBITAM (%)	10.3%	10.8%		12.8%	12.7%	
Net profit	613	455	-25.9%	1,441	1,305	-9.5%
EPS	6	4	-25.9%	14	13	-9.5%

Revision in Target Price

Post the company's decision to demerge its polymer business into a separate entity, we are valuing its core business and polymer businesses separately.

Accordingly, we have used EV/EBITDA based on FY21E estimates and arrive at SOTP valuation of Rs.121. The Company has garnered new order worth Rs.5,060 mn during the quarter for engineering business and its current order book stands at Rs.26,380 mn which gives us revenue visibility of 1.5x FY18 for engineering business.

Polymer division restructuring into a separate entity is a positive move as it would enable the management to focus on the core engineering business. Further, the various efforts for enhancing polymer sales and capacity rationalization would enable the company to grow its polymer segment with enhanced profitability although next 3-4 quarters to witness profitability pressures.

Segments	Sales FY21 Rs mn	EBITDAM% %	EBITDA Rs mn	EV multiple xs	Total Value
Engineering	24,662	12.0%	2,677	6.0	16,062
Polymers	2,360	3.5%	70	4.0	278
Infra	877	10.0%	87	6.0	521
Total					16,861
Less: Debt					4,613
Add: cash					176
Proposed market cap					12,423
No of Equity shares					103
Value per share					121
CMP					62.2
Upside potential					94.7%
Core business valuation (Rs mn)					12,145
Core value per share (Rs)					118
Polymer valuation (rs mn)					278
Core value per share (Rs)					3
Total value per share (Rs)					121

Financial Summary

Income statement (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Total revenues	16,646	20,737	20,351	25,163	27,899
% growth	10.5%	24.6%	-1.9%	23.6%	10.9%
Operating expenses	(14,445)	(17,967)	(18,148)	(21,965)	(24,195)
EBITDA	2,201	2,770	2,203	3,198	3,704
% growth	-8.1%	25.8%	-20.5%	45.2%	15.8%
Depreciation	(316)	(459)	(456)	(489)	(511)
EBIT	1,886	2,311	1,747	2,709	3,193
Interest	(676)	(793)	(944)	(890)	(736)
Other Income	558	298	102	189	279
Exceptional items	(1)	(12)	(205)	-	-
PBT	1,767	1,804	700	2,008	2,736
Tax	(525)	(626)	(245)	(703)	(958)
PAT	1,242	1,178	455	1,305	1,778
EPS	12.1	11.5	4.4	12.7	17.3
% growth	30.6%	-5.4%	-61.4%	187.1%	36.3%

Cash flow (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Profit before tax	1,767	1,804	700	2,008	2,736
Depreciation	316	459	456	489	511
Change in working capital	(283)	(2,177)	(1,069)	(1,213)	(384)
Total tax paid	(452)	(476)	(245)	(703)	(958)
Others	413	1,194	1,149	890	736
Cash flow from operation (a)	1,760	804	991	1,471	2,641
Capital expenditure	(939)	(499)	(550)	(500)	(210)
Change in investments	117	67	-	-	-
Others	30	14	-	-	-
Cash flow from investing (b)	(791)	(419)	(550)	(500)	(210)
Free cash flow (a+b)	969	386	441	971	2,431
Change in Equity / Preference	-	27	0.1	-	-
Debt raised/(repaid)	(257)	564	1,567	(500)	(1,550)
Dividend (incl. tax)	(172)	(191)	(60)	(215)	(267)
Others	(671)	(793)	(944)	(890)	(975)
Cash flow from financing (c)	(1,100)	(392)	562	(1,605)	(2,792)
Net chg in cash (a+b+c)	(132)	(7)	1,003	(634)	(360)

Balance Sheet (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	102	103	103	103	103
Share Options outstanding	28	47	47	47	47
Reserves & Surplus	5,191	6,223	6,618	7,707	9,219
Total Networth	5,321	6,373	6,767	7,857	9,369
Total Debt	4,154	4,613	6,180	5,680	4,130
Other non-current liabilities	651	588	588	588	588
Other current liability	3,782	5,861	4,299	5,195	5,427
Total Liabilities	13,909	17,435	17,835	19,321	19,515
Net Fixed Assets	5,112	5,224	5,319	5,330	5,028
Investments	-	-	-	-	-
Long term advance & Other NCA	164	38	38	38	38
Debtors and Inventory	7,404	10,787	10,183	12,029	13,385
(A) Cash & current investment	249	176	1,179	545	184
(B) Other current assets	979	1,210	1,115	1,379	879
Total Assets	13,909	17,435	17,835	19,321	19,515

Ratio analysis	FY17	FY18	FY19E	FY20E	FY21E
EBIDTA margin (%)	13.2	13.4	10.8	12.7	13.3
PAT margin (%)	7.5	5.7	2.2	5.2	6.4
ROCE (%)	26.1	24.0	14.7	20.9	12.3
ROE (%)	23.4	18.6	11.6	16.6	10.3
Asset Turnover	3.3	4.0	3.8	4.7	5.5
Inventory days	123	155	140	130	130
Receivable days	82	91	90	90	90
Payable days	97	135	85	90	90
Debt to equity	0.8	0.7	0.9	0.7	0.4

Valuation parameters	FY17	FY18	FY19E	FY20E	FY21E
EPS	12.1	11.5	4.4	12.7	17.3
P/E (x)	5.1	5.4	14.0	4.9	3.6
EV/ EBIDTA (x)	4.7	3.9	5.2	3.6	1.9
EV/ Sales (x)	0.6	0.5	0.6	0.5	0.3
P/BV (x)	1.2	1.0	0.9	0.8	0.7

Stock rating (1 year target scale)

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

Disclaimer & Disclosure

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