SKIPPER LTD.

INTRODUCTION

Skipper Ltd, promoted by Mr. Sajan Kumar Bansal of Kolkata, was incorporated in May 1981. Skipper is a T&D tower manufacturer that has integrated backwards. Its product portfolio in the EPC segment includes power transmission towers, power distribution poles, and monopoles. The company has MS and HT angle capacity of 250,000 MTPA and a fabrication and galvanizing capacity of 230,000 MTPA. The MS and HT angles capacity is for internal consumption. The polymer products segment produces and sells polymer pipes and fittings for plumbing, sewers, agriculture and borewells. In the PVC water pipes division, the company has an installed capacity of 51,000 MTPA. Skipper participates in EPC projects provided they yield a high margin of about 20–25%. Skipper produces engineering products (83% of FY17 revenue) and polymer products (12%) and is involved in infrastructure projects (5%). In the engineering products segment, the company makes transmission and distribution (T&D) towers and claims to be the third-largest T&D tower manufacturer in India. As of end-FY17, Skipper had an order backlog of Rs25.9bn, 51% of which was for Power Grid Corp of India (PGCIL).

METRIC ANALYSIS

Skipper is increasing its sales at CAGR of 22.6% in last 7 years, although the growth rate has slowed down to 16.6% CAGR in last 3 years. Further management has guided for 20% volume growth in engineering segment for FY18. In last 7 years debt has increased form Rs 199.3 crore to Rs 437.84 crore in FY17. Although the interest coverage ratio has improved from 3.0 in FY 10 to 3.71 in FY17 suggesting higher rate of growth in operating profit compared to debt. Going forward the management has guided for Rs 85 crore capes in FY18. Depending upon the cash flow we will have to see if the company will do the capes from debt funding or internal accrual.

Narration (Crore)	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
SALES	408.97	502.47	741.23	900.35	1073.05	1312.80	1506.22	1702.96
DEBT	199.30	347.12	299.42	424.32	439.50	382.86	468.20	437.84

Operating profit margin (OPM) has improved from 8.5% in FY10 to 14.9% in FY17. This improvement is largely due to better plant utilization, backward integration of the engineering products and economy of scale. Management claims that the company have best operating margins in engineering products segment (83% of total sales) due to backward integration of the manufacturing process, lower steel prices in West Bengal as compared to rest of India and the fact that the company is only product supplier not the EPC contractor. Between FY10 to FY17 net profit margin is also improved from 3.22% to 6.55%.

Narration	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
OPM	8.45%	9.76%	8.40%	10.03%	11.01%	17.32%	15.07%	14.86%
NPM	3.32%	3.51%	1.33%	2.08%	2.51%	6.79%	6.32%	6.55%

The return ratio for the company in FY17 is at comfortable level (ROTC: 20%, ROE: 30%). The ROTC has improved from 10% in FY11 to 20% in FY17, while ROE has improved from 16% in FY11 to 30% in FY17. The net fixed asset turnover has come down in the same period from 6.15 in FY10 to 4.01 in FY17. This is mainly due to high capital investment company is incurring to fuel growth.

Narration	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
ROTC		9.95%	7.38%	12.44%	12.32%	20.93%	21.50%	19.82%
ROE		16.49%	7.96%	14.32%	13.31%	39.23%	31.71%	29.51%
NFAT	6.15	2.95	3.02	2.96	3.23	3.81	4.09	4.01

Looking deep into the finance cost that the company is reporting, we find that the apart from the interest on debt the company is also paying bank charges and commission of around Rs 7-8 crore, which is not included in the finance cost. Adding this to the interest paid by the company will further reduce the interest coverage ratio of the company. **In the Q2 FY18 concall the management has claimed that the cost of debt for the company has come down to 8%, but adding the commission company is paying to the banks in the interest cost will take the cost of debt to around 14%-15% which is on higher side.**

> crores from Rs. 56.95 crores, with margins remaining consistent at 13% plus. Operating PBT increased to Rs. 36.53 crores from Rs. 33.91 crores registering a growth of 8%. Operating PAT increased to Rs. 23.24 crores from Rs. 22.37. Our average cost of debt has come down to a level of 8% per annum on account of various cost benefit initiatives and overall reduction in the interest cost by the banks.

Looking at the capital management of the company we find that in last 7 years (from FY11 to FY17) the company has earned cash flow from operation (CFO) of Rs 521.7 crore. Capex done by the company in that period is Rs 421 crore, giving us the free cash flow of around Rs 100 crore. Out of this Rs 100 crore company has paid total dividend of Rs 86 crore leaving us with cash flow of only Rs 14 crore. Between FY11 and FY17 company has paid total interest of around Rs 340 crore and total bank commission of around Rs 46.4 crore. To pay for this cash outflow company has taken debt of Rs 87.4 crore between FY11 and FY17. Now since there is no fresh equity is infused by the promoters, it raises the questions from where the company is paying for the cash outflow of around Rs 140 crore. In the balance sheet company have cash and cash equivalent of ~Rs 25 crore out of which ~Rs 23.5 crore is pledged to the bank for bank credit facility, and cannot be used freely by the company. It is advisable that the investors should clear this before investing in the company.

Narration (Millions)	Mar-10	2017	2016	2015	2014	2013	2012	2011	SUM
CFO		1,752.32	643.52	1,738.16	1,007.34	-148.00	1,154.00	-930.00	5,217.34
CAPEX		853.57	945.12	298.92	321.31	576.56	538.03	678.83	4,212.34
DIVIDEND		158.5	143.2	133	154	97	70	106	861.70
FINANCE COST		610.98	570.04	582.57	605.43	463.59	367.48	195.12	3,395.21
BANK COMMISSION		70.96	78.13	121.7	79.8	50.75	39.1	23.4	463.84

The working capital cycle of the company is very steep with the sum of receivable days and inventory days are equal to 175 days in FY17. Historically working capital days remained in this range only. Primary reason for high inventory is because company has to fill up inventories in advance before executing the order. Apart from this company has also given advances of around Rs 42 crore to suppliers and for capital goods.

Narration	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
Receivables Days (Low is Better)	27.07	55.48	58.36	60.77	65.77	84.47	90.65	79.88
Inventory Days (Low is better)	43.47	103.97	107.81	106.45	103.45	94.61	93.93	95.75
Working Capital Cycle (Rec + Inv Day:	70.54	159.45	166.17	167.22	169.22	179.08	184.58	175.62

SALES DISTRIBUTION

Skipper produces engineering products (83% FY17 revenue) and polymer products (12% FY17 revenue) and is involved in infrastructure products (5%). In the engineering products segment, the company makes transmission and distribution (T&D) towers and claims to be the third-largest T&D tower manufacturer in India. As of Q2 FY18 order book stands at Rs 2580 crore, around 50% of which is from Power Grid Corporation of India (PGCIL). Management anticipates a slowdown in demand from PGCIL as legacy orders in this space are exhausted, but it believes this should be offset by an increase in demand related to private and state-owned power generation projects and thus expects revenue in the engineering products segment to rise 15% YoY over the next two years.

Segment	Engineering Products	Polymer Products	Infrastructure Projects
Revenue Contribution (FY17)	83%	12%	5%
Product Offering	power transmission towers, power distribution poles, and monopoles	polymer pipes and fittings for plumbing, sewers, agriculture and borewells	N.A.
Market Position	14% in India	N.A.	N.A.
Major Clients	Power Grid Corp of India (PWGR IN), Tata Power (TPWR IN), Megha Engineering (unlisted), Bharat Light and Power (unlisted)	direct to consumers	N.A.
Competitors	Karamtara Engineering (unlisted), KEC International (KECI), Kalpataru Power Transmission (KPP)	Supreme Industries (SI), Astral Polytechnik (ASTRA), Finolex Industries (FINPIPE)	Larsen & Tubro (LT), Kalpataru Power Transmission
EBITDA Margins	13%-14%	8%-10%	fluctuating

Growth Forecast	20% growth in FY18	25%-30% in FY18	N.A.

Geographically 80% of the engineering product order book is domestic and 20% is export orders. For Polymer business 100% sales is domestic. Further 50% of engineering product order book is PGCIL, 30% SEB's and 20% export. Company has come a long way in terms of order concentration as four year ago 90% of the order book was from PGCIL compared to 50% at present. Management expects to further reduce this concentration going forward.

PEER COMPARISON

As 83% percent of the revenue is from engineering products business, we will compare the performance of Skipper from power T&D companies only. In power T&D business two major competitors are Kalpataru Power Transmission Ltd and KEC International.

Narration		2013	2014	2015	2016	2017
Sales	**Skipper**	**900.35**	**1073.05**	**1312.8**	**1506.22**	**1702.96**
	Kalptaru	6085.03	7090.29	7198.21	7184.89	7512.47
	Kec Int	5592.08	6558.77	6592.09	7690.42	7566.44
OPM	**Skipper**	**10.03%**	**11.01%**	**17.32%**	**15.07%**	**14.86%**
	Kalptaru	8.30%	8.79%	10.28%	11.66%	12.68%
	Kec Int	5.26%	6.42%	5.89%	9.92%	10.40%
NPM	**Skipper**	**2.08%**	**2.51%**	**6.79%**	**6.32%**	**6.55%**
	Kalptaru	2.13%	1.72%	1.67%	1.53%	2.48%
	Kec Int	0.08%	1.30%	1.68%	2.54%	3.72%
ROTC	**Skipper**	**12.44%**	**12.32%**	**20.93%**	**21.50%**	**19.82%**
	Kalptaru	8.79%	7.38%	6.35%	5.60%	8.81%
	Kec Int	1.65%	10.31%	8.17%	14.72%	11.52%
D/E	**Skipper**	**2.10**	**1.93**	**1.28**	**1.24**	**0.89**
	Kalptaru	0.94	1.30	1.66	1.30	1.18
	Kec Int	1.12	1.38	1.39	1.86	0.88

Looking at the comparison table we will find out that the Skipper is out performing its peers in all the parameters. Management claims that the better margins for Skipper is due backward integration of the manufacturing process, cheaper steel prices in West Bengal and the fact that the company only supply equipment and does not involve in EPC contracts.

Further looking deep into the numbers we will find that the KEC international is free cash flow (total cash flow from operation- total capex) positive while Skipper is not. Despite having better margins and working capital cycle the company is not able to generate enough cash to fuel growth.

SHAREHOLDING PATTERN

In shareholding pattern higher promoter holding signify higher confidence of promoters in the company and considered positive. Higher institution holding and lower retail holding is considered positive for the company as institution money is considered a smart money and stable money. In case of Skipper promoter holding is 70% which is much higher than the cutoff level of 51% that we consider as comfortable although holding is decreasing continuously. But if we look at institutional holding we will find that it is increasing continuously, which is good sign and gives us more confidence on company's future prospects.

SHARE HOLDING PATTERN						
	Promoter(A1)	**Pledging**	**Institution(B1)**	**Individuals**	**Retail(B3)**	**No.of shareholders**
Mar-16	72.37	0	3.35	6.97	24.27	7839
Jun-16	72.37	0	3.15	7.36	24.49	9392
Sep-16	72.37	0	4.59	6.79	23.03	9770
Dec-16	72.37	0	8.39	5.73	19.24	10317
Mar-17	70.41	0	12.39	5.46	17.2	9072
Jun-17	70.41	0	13.09	5.26	16.51	9393
Sep-17	70.35	0	13.89	6.29	15.76	10290

CREDIT REPORT ANALYSIS

The credit rating of Skipper is done by CARE Ratings. CARE has given the company CARE A+ for its long term instruments and CARE A1+ with stable outlook for its short term instruments.

Credit Rating		2017	2016	2015	2014
Instrument	Type	Rating	Rating	Rating	Rating
Bank Facility	LT	CARE A+	CARE A+	CARE A+	CARE A-
Bank Facility	ST	CARE A1+	CARE A1+	CARE A1	CARE A2
Loan	LT	CARE A+	CARE A+	CARE A+	CARE A-
Commercial Paper	ST	CARE A1+	CARE A1+	CARE A1	-

In the analysis the rating agency has mentioned fey strengths as experienced promoters and satisfactory track record of the promoters, strategic location of plant and expansion plan in PVC business, satisfactory order book position and decent financial risk profile. In the weakness section the agency has mentioned working capital intensive operations of the company, and moderate capital structure of the company. Care has also mentioned that the efficient management of working capital and reduction in debt will be the key points to further improvement in company's ratings.

MANAGEMENT OVERVIEW

The key management personnel of the company include Mr. Sajan Kumar Bansal (Managing Director), Mr Sharan Bansal (Whole Time Director), Mr. Devesh Bansal (Whole Time Director) and Mr. Siddharth Bansal (Whole Time Director).

Mr. Sajan Kumar Bansal has been the Managing Director of Skipper Limited, since October 2007. Mr. Bansal is having an experience of over 25 years in steel and engineering industry. He has been a Director at Skipper Limited since October 26, 1984. He serves as a Director of Bansal TMT Steels Ltd., Skipper Infrastructure Ltd., Cement Manufacturing Co. Ltd., Skipper Tele - Link Ltd., Swasti Agencies Pvt. Ltd., Riangdo Veneers Pvt. Ltd. and Transcend Infrastructure Ltd. He served as an Independent Director at Century Plyboards (India) Limited from July 8, 2013 to May 6, 2014. He served as Director of Century Plyboards (India) Limited from December 2006 to March 18, 2011. He is a Commerce graduate.

Looking at the remuneration of KMP of the company we can see that each year the percentage of remuneration as compared to profit is increasing and now exceeded the allowable limit of 10%. We should keep a keen watch on management remuneration and should take it as a negative sign in case of any further increase in percentage.

Year	2017	2016	2015	2014
Remuneration	127	79.57	39.21	2.7
Net Profit	1114.97	951.3	891.71	268.08
Ratio	11.39%	8.36%	4.40%	1.01%

In the related party transaction company is involved in frequent transaction with promoters and nine promoter related companies in the form of loans. These nine companies related to promoters are not subsidiary or associate company of Skipper.

Company has 8 board of directors, four of them are independent and other four are executive directors (Mr Saja Kumar Bansal and his three son). Auditing for the company is done by Singhi and Co.

POINTS OF CAUTION

1) The company’s operations are capital intensive and a slight dip in order will make it difficult for the company to manage its expenses.
2) The company is paying banks commission along with interest on debt, which takes the company’s cost of debt to 14%-15%.
3) The company is free cash flow negative, it is advisable to watch closely in future if the company’s operations turns into free cash flow positive.
4) Apart from providing credit to dealers company is also paying advances to its suppliers, which is further adding strain to already strained working capital cycle.
5) The company has total debt of ~Rs 440 crore, but CARE rating only rated company’s debt instrument of only ~Rs 175 crore.

WHY WE SHOULD INVEST

1) Power sector is among the high priority of government agenda and huge investment from government is expected from government in coming year.
2) Among the peers the company has best margins and best returns on equity.