

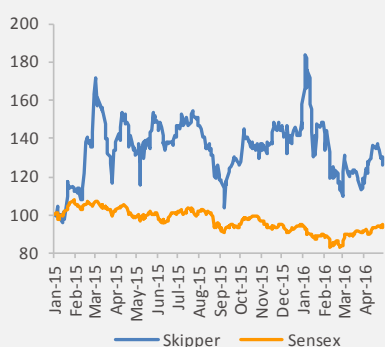
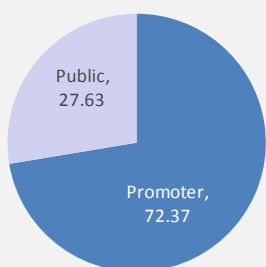
Skipper Ltd: Q4FY16 Result Update

Strong Quarter
CMP: INR 144
Target: INR 194

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Bloomberg: Skipper :IN

52-week range (INR): 220 / 117
 Share in issue (Cr): 10.2
 M cap (INR crs): 1,449
 Avg. Daily Vol. BSE/NSE
 :('000): 63/ 221

SHARE HOLDING PATTERN (%)

 Date: 19th May, 2016

Skipper has reported a good set of numbers - net sales for the quarter grew by 6% YoY to INR 530 cr marginally lesser than our estimates of INR 551 cr. The miss on the top line was primarily due to lesser revenues from the PVC segment at INR 56 cr versus our estimates of INR 70 cr. Aided by strong execution on the International orders the company clocked robust EBITDA margins of 13.9%. EBITDA at INR 73 cr and PAT at INR 36 cr was in line with our expectations of INR 74 cr and INR 37 cr respectively. The order book remains healthy at INR 2429 cr (including L1 position for INR ~200 cr) as on 1st April, 2016. For the PVC segment, Skipper reported strong revenue growth of 28.6% YoY for the quarter at INR 56 cr and sales for the year stood at INR 152 cr. For FY17E the management has given a guidance to maintain EBITDA margins for the Engineering Product segment in the 13-14% range and for the PVC segment at 11% plus.

Robust numbers in Q4FY16; strong guidance for FY17E

The company's net sales grew 6% YoY to INR 530 cr below our estimates of INR 551 cr. The miss on the top line was primarily due to lesser revenues from the PVC segment at INR 56 cr versus our estimates of INR 70 cr. Aided by strong execution on the International orders the company clocked robust EBITDA margins of 13.9% - the EBITDA stood at INR 73 cr. For FY17E the management has given guidance to maintain EBITDA margins for the Engineering Product segment in the 13-14% range and for the PVC segment at 11% plus. On the consolidated basis the management has guided to maintain margins in the 13-14% range for FY17E. The management has guided for 15-20% growth in top-line for the engineering products segment and 70%-75% growth in the PVC segment for FY17E.

Healthy order book of INR 2429 cr; huge opportunities seen in the T&D space

Skipper has a strong order book of INR 2429 cr (1.89x FY16 Engineering products revenues of INR 1282 cr) as on 1st April, 2016 for the Engineering products and Infrastructure segment. The order book includes L1 position for projects worth INR ~200 cr. The company has submitted bids for projects worth INR 1200 cr and is hopeful of bagging some of these projects. Skipper has maintained that the opportunities for the company from domestic as well as International geographies remain robust for the coming few years. The management has indicated that a lot of order traction is being witnessed across SEBs because of the implementation of the UDAY scheme. Skipper is participating in tenders from the SEBs with a minimum ticket size of INR 100 cr. Huge opportunities from the north-east are also being seen under the NERPSIP programme. The opportunity for tower manufacturing companies for NERPSIP stands at INR 2500 cr and Skipper is hopeful of bagging 20% of these projects at-least. Geographically, 75% of the order book is from domestic orders and 25% from International markets.

Polymer (PVC pipes) segment continues to grow exponentially

Although the revenues for the division at INR 56 cr were lesser than the INR 70 cr that we had factored in for the quarter, Skipper has delivered a topline of INR 152 cr from PVC and that's a 70% growth for FY16 vis-à-vis the INR 90 cr topline for FY15. Skipper has guided to add additional capacity of 15000-20000 MTPA in FY17E in geographies where the capacity utilization of existing plants picks up. With the addition of CPVC and pipe fittings in the portfolio the management is aiming for margins of 14% for the Polymer in the coming few years.

Valuations

A sizeable order book, huge opportunity size and diversification into the PVC business firmly place the company on a higher growth trajectory. Valuing the consolidated business at 12x FY18E earnings of INR 16.2/ share, we maintain BUY on Skipper with a price target of INR 194.

Year to March	Q4FY16	Q4FY15	% Change	Q3FY16	% Change	FY16	FY17E	FY18E
Net Revenues (INR cr)	530	500	6.0%	372	42.5%	1,488	1,879	2,408
Operating EBITDA (INR cr)	73	69	7.0%	50	48.4%	201	244	339
Reported Net Profit (INR cr)	36	30	19.5%	19	93.3%	88	95	107
Diluted Core EPS (INR)	3.5	3.0	19.5%	1.8	93.3%	7.5	10.5	16.2
Diluted P/E						19.2	13.7	8.9
EV/EBITDA						9.2	7.7	5.6
RoE %						22.4	25.1	30.4

Concall highlights

Strong show in FY16: The Net sales were up 15% YoY at INR 1462 cr with share of exports to total revenues at 45%. The falling commodity prices limited value growth even though the sales volume grew. Operating Profit at INR 201 cr grew by 16% YoY while operating PBT grew by 32% YoY.

Capacity Utilization: Capacity utilization for the Engineering products segment is at 90% and for the PVC segment is at 80%. The capacity utilization has been considered on the installed capacities of 1,75,000 MTPA and 25,000 MTPA for Engineering products and PVC segments respectively. Additional capacities of 25,000 MTPA and 11000 MTPA have been added towards the end of FY16 for Engineering products and PVC pipes segment respectively.

Capex guidance for FY17E: Capex is expected to be in the range of INR 50-60 cr for FY17E. For FY16 capex at INR 95 cr was due to (1) Addition of 1,00,000 MTPA capacity for angle rolling; (2) PVC capacity addition; and (3) 25,000 MTPA addition for Tower manufacturing

Credit Rating Upgrade: The Company’s external credit rating has been upgraded two notches by CARE from A- to A+ on account of improved operational & financial performance in conjunction with better growth prospects. The average cost of debt for Indian debt stands at 11%.

Working Capital increase: Due to excise duty payment on export orders the loans and advances increased by INR 41 cr.

Figure 1: Segment Wise Revenue contribution

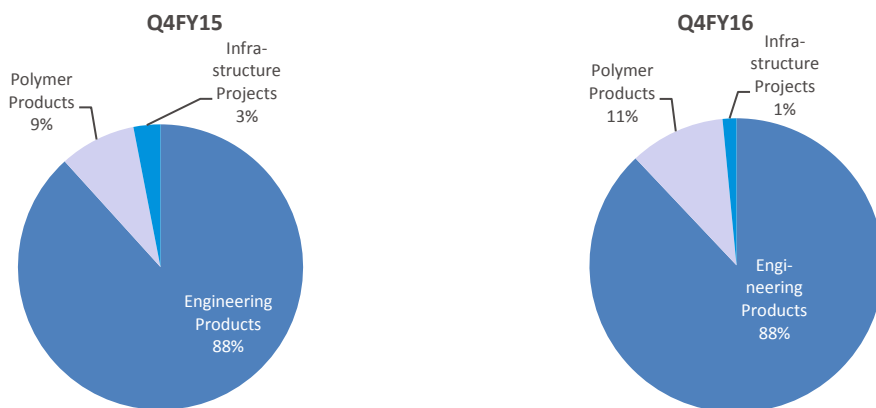
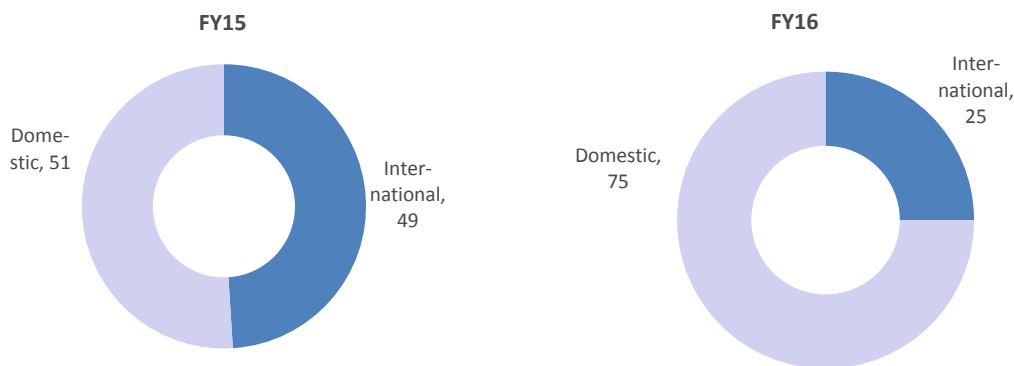


Figure 2: Geographical Order book mix



Q4FY16 Result Highlights

Year to March (INR Cr.)	Q4FY16	Q4FY15	YoY	Q3FY16	QoQ	FY16	FY15	YoY
Net Sales	530	500	6.0%	371.8	42.5%	1488	1270	17.2%
Raw Material	341	362	-5.6%	232.2	47.0%	948	932	1.7%
Staff costs	15	9	74.8%	12.2	25.3%	50	30	64.0%
Other Expense	100	61	64.0%	77.9	28.0%	289	135	113.7%
EBITDA	73	69	7.0%	49.5	48.4%	201	172	16.7%
Depreciation	6	6	-0.2%	6.1	3.1%	24	22	9.6%
Other income	1	0	1245.7%	0.9	27.0%	5	5	0.0%
PBIT	68	62	9.3%	44.2	54.3%	182	155	17.2%
Interest	16	15	1.2%	15.3	1.6%	57	58	-1.7%
PBT	53	47	11.9%	28.9	82.2%	125	94	33.2%
Tax	17	17	-1.7%	10.2	61.8%	48	47	1.6%
Core PAT	36	30	19.5%	18.7	93.3%	77	46	65.5%
Extraordinary items	-	-		-		18	42	-57.1%
Reported PAT	36	30	19.5%	18.7	93.3%	95	88	7.2%

Company Description

Skipper Limited is one of the world's largest Integrated Transmission Tower manufacturing companies with Angle Rolling, Tower, Accessories & Fastener manufacturing and EPC line construction. Skipper's manufacturing capacity is among the top 3 in India and among the top 10 in the world. Skipper's market reach spans across 20 countries around the globe from South America, Europe, Africa, the Middle East, South and Southeast Asia and Australia. Within India, it is a preferred manufacturer of choice for customers pan India, from J&K to Tamil Nadu and from North East India to Gujarat.

Skipper is also the largest producer of PVC pipes in West Bengal and already has market share of 10% in Eastern India. Skipper offers a huge range of pipes and fittings, which are used in different areas such as Plumbing, Sewage, Agriculture and Borewell sectors.

Investment Theme

Skipper Limited (Skipper) is one of India's largest integrated transmission tower manufacturing companies with strengths in angle rolling, tower accessories, fastener manufacturing and EPC line construction. Skipper has also diversified into PVC and CPVC pipes and presently has 10% market share in Eastern India. Skipper is on the cusp of the next growth phase based on metrics such as: strong order book of INR 2,429 crore (1.89x FY16 engineering products revenue); huge capex lined up for power transmission in India and abroad; and proven track record of strong execution. We expect revenue and core profit to grow at 27% and 47% CAGR respectively over FY16-FY18E with company set to achieve ROCE of 30% by FY18E.

Skipper has three manufacturing facilities located in close proximity in the Howrah district in West Bengal. The company is the third largest domestic player in terms of capacity, which stands at 2,00,000 MTPA. These three plants are located in the vicinity of their raw material suppliers, which greatly reduces the raw material sourcing cost for the company. Skipper's peers such as KEC and Kalpataru that have their manufacturing capacities spread out in Maharashtra and Gujarat respectively do not enjoy similar locational advantage. Skipper's tower manufacturing capacity is backward integrated with the 3,00,000 MTPA hot rolling mill that manufactures angles, which is the main raw material for the transmission towers. The 100% backward integration and strong execution capabilities differentiate Skipper from competition and enable it to continue to have a 200 bps-250 bps margin advantage over EPC players such as KEC and Kalpataru.

Key Risks

Aggressive bidding of projects: Skipper is focusing on PGCIL's projects and will face competition from other players such as KEC, Kalpataru, EMC etc. Any aggressive bidding environment may negatively impact its margin profile.

Lower than expected order wins: Future growth for Skipper depends on PGCIL's capex in the transmission sector. We have assumed domestic order inflows worth INR 1,800 crore and INR 2,000 crore for FY17E and FY18E respectively. Therefore, lower-than-expected order inflows will likely be a key risk for future earnings and sales projections.

Delay in project execution: Any delay in project execution will lead to margin and working capital deterioration.

Financials

Income Statement					(INR Cr)
Year to March	FY14	FY15	FY16	FY17E	FY18E
Income from operations	1,073	1,270	1,488	1,879	2,408
Raw Materials Cost	812	932	948	1,390	1,767
Employee costs	24	30	50	39	48
Other expenses	119	135	289	205	253
Total operating expenses	955	1,098	1,287	1,634	2,068
EBITDA	118	172	201	244	339
Depreciation and amortisation	15	22	24	27	29
EBIT	103	150	177	217	310
Interest expenses	69	58	57	60	65
Other income	2	2	5	5	5
Profit before tax	37	94	125	163	250
Provision for tax	10	47	48	55	85
Core profit	27	46	77	107	165
Extraordinary items	0	42	18	0	0
Profit after tax	27	88	95	107	165
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Reported net profit	27	88	95	107	165
Equity shares outstanding (mn)	102	102	102	102	102
EPS (INR) basic	2.6	8.6	9.3	10.5	16.2
Diluted shares (mn)	102.3	102.3	102.3	102.3	102.3
EPS (INR) fully diluted	2.6	8.6	9.3	10.5	16.2
Dividend per share	0.2	1.3	1.4	1.6	2.4
Dividend payout (% of Core PAT)	5.7	15.0	18.6	15.0	15.0

Common size metrics - as % of net revenues

Year to March	FY14	FY15	FY16	FY17E	FY18E
Operating expenses	89.0	86.4	86.5	93.0	93.0
Depreciation	1.4	1.7	1.6	1.4	1.2
Interest expenditure	6.4	4.6	3.8	3.2	2.7
EBITDA margins	11.0	13.6	13.5	13.0	14.1
Net profit margins	2.5	7.0	6.4	5.7	6.9

Growth metrics (%)

Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenues	15.6	18.4	17.2	26.3	28.2
EBITDA	30.8	45.7	16.7	21.6	39.0
PBT	32.2	155.6	33.2	30.2	53.8
Net profit	43.8	72.5	65.5	39.9	53.8
Core EPS	36.9	228.5	65.5	13.3	53.8

Balance sheet					
(INR cr)					
As on 31st March	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	10	10	10	10	10
Equity Warrant	0	0	0	0	0
Reserves & surplus	221	294	372	463	604
Shareholders funds	231	304	382	474	614
Secured loans	318	254	242	262	302
Unsecured loans	121	129	198	198	198
Borrowings	440	383	440	460	500
Deffered Tax Liability	22	26	31	31	31
Sources of funds	692	713	854	965	1,146
Gross block	394	430	525	585	645
Depreciation	56	78	102	129	158
Net block	339	351	422	455	486
Capital work in progress	8	3	0	0	0
Total Fixed Assets	347	355	422	455	486
Investments	0	0	0	0	0
Inventories	229	228	250	360	462
Sundry debtors	232	376	372	553	692
Cash and equivalents	26	56	56	44	70
Loans and advances	48	49	91	91	91
Other current assets	0	0	0	0	0
Total current assets	535	709	769	1,047	1,314
Sundry creditors and others	186	329	316	516	632
Provisions	3	21	21	22	23
Total CL & provisions	189	350	337	537	654
Net current assets	346	359	432	510	660
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
Uses of funds	693	713	854	965	1,146

Cash flow statement					
Year to March	FY14	FY15	FY16	FY17E	FY18E
Net profit	27	46	77	107	165
Add: Depreciation	15	22	24	27	29
Add: Misc expenses written off	0	0	0	0	0
Add: Deferred tax	4	5	5	0	0
Add: Others	0	0	0	0	0
Add: Interest Expense	69	58	57	60	65
Gross cash flow	114	131	163	194	260
Less: Changes in W. C.	18	2	73	91	125
Operating cash flow	96	129	90	103	135
Less: Capex	32	30	92	60	60
Free cash flow	64	99	(2)	43	75

Ratios

Year to March	FY14	FY15	FY16	FY17E	FY18E
ROAE (%)	13.2	17.3	22.4	25.1	30.4
ROACE (%)	15.4	21.4	22.6	23.9	29.4
Debtors (days)	79	108	108	107	105
Current ratio	2.8	2.0	2.3	1.9	2.0
Debt/Equity	1.9	1.3	1.2	1.0	0.8
Inventory (days)	78	66	70	70	70
Payable (days)	53	72	80	80	80
Cash conversion cycle (days)	104	102	98	97	95
Debt/EBITDA	3.7	2.2	2.2	1.9	1.5
Adjusted debt/Equity	1.8	1.1	1.0	0.9	0.7

Valuation parameters

Year to March	FY14	FY15	FY16	FY17E	FY18E
Core EPS	2.6	4.5	7.5	10.5	16.2
Y-o-Y growth (%)	43.8	72.5	65.5	39.9	53.8
CEPS (INR)	4.1	6.7	9.9	13.1	19.0
Diluted P/E (x)	54.7	31.7	19.2	13.7	8.9
Price/BV(x)	6.4	4.8	3.9	3.1	2.4
EV/Sales (x)	1.8	1.4	1.2	1.0	0.8
EV/EBITDA (x)	16.0	10.5	9.2	7.7	5.6
Diluted shares O/S	10.2	10.2	10.2	10.2	10.2
Basic EPS	2.6	4.5	7.5	10.5	16.2
Basic PE (x)	54.7	31.7	19.2	13.7	8.9
Dividend yield (%)	1.1	9.2	9.9	11.2	17.3

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Rating	Expected to
Buy	appreciate more than 25% over a 12-month period
Hold	appreciate up to 10% over a 12-month period
Reduce	depreciate more than 10% over a 12-month period

Skipper Ltd price chart



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