

SKIPPER LTD

15 Nov 2017

Initiating Coverage (BUY)

CMP **INR 243**
Target Price **INR 308**
Stock Details

Industry	Construction & Engineering
Bloomberg Code	SKIPPER:IN
BSE Code	538562
Face Value (Rs.)	1.00
Market Cap. (Rs. mn)	24,883.2
52wk. Low/High (Adjusted) ((Rs.)	125.25/275.85

Shareholding Pattern Sept '17

Promoter (%)	70.35
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	29.65
No. of Share Outstanding (mn)	102.40

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	14.48	22.29	24.00	24.00
EV/EBITDA (x)	6.96	10.69	10.41	10.29
P/BV (x)	3.61	5.03	4.73	4.51

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	15,062	17,030	20,436	24,114
EBITDA	2,244	2,492	2,818	3,168
Net Profit	951	1,115	1,157	1,313
EPS (Rs.)*	09.3	10.9	11.3	12.8

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	14.8	14.6	13.8	13.1
EBIT Margin (%)	13.3	12.8	12.0	11.6
Net Pro. Margin (%)	6.3	6.5	5.6	5.4
Debt/Equity (x)	0.52	0.36	0.30	0.25
RoNW (%)	27.8	25.5	21.4	20.4
RoCE (%)	17.1	16.8	15.3	15.2

One Year Price / Volume



We recommend 'BUY' on SKIPPER LTD for a target of INR 308 - valuing the company at P/E 24x of FY19E Earning.

INVESTMENT RATIONALE:

- Largest manufacturer of T&D structures in India and among top 10 globally.
- Fastest growing Polymer Pipes & Fittings company in the country.
- Skipper is enhancing its reach, expanding production and increasing market share.
- Its manufacturing facilities are equipped with state-of-the-art machinery and test equipment.
- As the power transmission capex in India remains strong, Skipper will continue to enjoy the benefits of low-cost integrated operations.
- Augmenting on Growth through New Manufacturing Plants.
- It is the only company in the sector to undertake asset light route for expansion and set up satellite manufacturing units to cater different zones of the country.

VALUATIONS AND VIEW:

Skipper Limited, is India's largest T&D Structure manufacturing company and among the 10th largest companies in the world. The Company is also a leading and reputed manufacturer of PVC pipes for water transportation and a trusted partner for executing critical Infrastructure EPC projects. **We value the business at 24x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 308 per share.**

RISK & CONCERNS:

- **Business & Market Risk:** The Company believes that the risk from competition is very rare. However the Company does not ignore the possibility of competition from other players. The Company operates in a very dynamic way and all decisions by the management are taken considering all the possibilities.
- **Financial Risk:** Increase in operation cost as well as raw material cost poses financial risk to the Company. The prices of raw materials are driven by commodity prices which are fluctuating in nature. However, the Company applies various strategies like purchase in bulk as well as import of raw materials etc. to minimise the impact of financial risk.
- **Interest Rate Risk:** The Company is financed by various bankers and it is required to pay interest on credit facilities availed by it. The change in rate of interest may be both favourable as well as unfavourable to the Company.
- **Exchange Fluctuation Risk:** The Company is exposed to the fluctuations in the foreign exchange market due to significant exposure for import of raw materials and export of its finished product.

COMPANY BACKGROUND:

Established in 1981, Skipper Ltd. one of the world's leading manufacturers for Transmission & Distribution Structures (Towers & Poles) in its Engineering Products segment, a leading and respected brand in the Plastic Water Pipes sector as well as trusted partner for executing critical Infrastructure EPC projects. Skipper's market reach spans across 20 countries around the globe.

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. Our manufacturing capacity is the largest in India and among the top 10 in the world. Skipper Limited is a national powerhouse in the Polymer Pipe business. Under the brand name of 'Skipper', the company manufactures huge range of premium quality pipes and fittings, which are used in different areas such as Plumbing, Sewage, Agriculture and Borewell sectors. Additionally, it is IT enabled and a number of operations are carried out on various ERP platforms. We are fast evolving from an Eastern region to a National Brand.

Skipper Limited creates value for its customers by continuously improving the quality of its products through innovation and sustained growth. Skipper has more than 30 years of domain knowledge across Various Engineering Products such as Transmission Towers, Poles, Steel Pipes, Scaffoldings, Hot Rolled Sections, Plastic Pipes and Fittings.

Segments-

- Engineering Products
- PVC Products
- Infrastructure Projects

INDUSTRY OVERVIEW:

Electricity sector in India is growing at rapid pace. During the year FY 2017, the peak demand stood at 159 GW and the installed generation capacity was 326.84 GW. The demand for electricity is expected to increase at a CAGR of 7% to 1894.7 TWh by FY 2022. The expansion in industrial activity, growing population and increasing penetration and per capita usage will drive demand for electricity. In an indication of growing appetite for electricity in India, the country's per capita electricity consumption has reached 1075 kilowatt-hour (kWh) in 2015-16, compared with 914.41 kWh in 2012-13, according to the Central Electricity Authority (CEA). However, India's per capita power consumption is among the lowest in the world. Around 280 million people in the country do not have access to electricity. In comparison, China has a per capita consumption of 4,000 kWh, with developed nations averaging around 15,000 kWh per capita.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Larsen & Toubro	1,241	23.4	1,73,744.68	1.13	2,020.3	54.36	26,446.8	6.40	3.26
Voltas	166	20.3	659.0	0.61	95.4	22.01	1,036.7	7.18	5.24
NBCC	269	66.9	24,196.5	0.61	55.9	23.19	1,266.6	0.19	13.99
Jindal Saw	115	11.6	3,674.0	0.87	60.1	(14.73)	1,321.0	(0.92)	0.65
NCC	104	21.2	5,765.0	0.39	63.4	6.15	2,013.7	5.92	1.64
KNR Construct.	267	18.3	3,747.5	0.19	67.6	123.73	480.8	58.57	3.89
Skipper	256	24.0	24,883.2	0.60	16.0	51.61	398.8	40.31	5.03

*TTM

FINANCIAL OVERVIEW

Q2 FY17 Performance Highlight

(in Million)	16-Jun	16-Sep	16-Dec	17-Mar	17-Jun	YoY (%)	QoQ (%)
Revenue	2,859.17	4,027.23	4,305.94	5,837.30	4,327.24	51.35%	-25.87%
Other Income	7.76	7.31	7.97	8.21	7.52		
Total Income	2,866.93	4,034.54	4,313.91	5,845.51	4,334.76	51.20%	-25.84%
Expenditure	-2,436.78	-3,472.04	-3,735.54	-5,048.61	-3,979.70		
As a % of Sales	85.23%	86.21%	86.75%	86.49%	91.97%		
Interest	-160.16	-150.26	-176.83	-123.72	-168.56	5.24%	36.24%
PBDT	269.99	412.23	401.53	796.9	355.06		
As a % of Sales	9.44%	10.24%	9.33%	13.65%	8.21%		
Depreciation	-67.46	-71.7	-76.11	-100.2	-107.48		
PBT	202.53	340.53	325.42	696.7	247.58	22.24%	-64.46%
As a % of Sales	7.08%	8.46%	7.56%	11.94%	5.72%		
Tax	-65.34	-114.09	-101.93	-168.85	-87.82	34.40%	-47.99%
Net Profit	137.19	226.44	223.48	527.85	159.76	16.45%	-69.73%
As a % of Sales	4.80%	5.62%	5.19%	9.04%	3.69%		
Equity	102.32	102.32	102.32	102.32	102.32	0.00%	0.00%
EPS (Rs)	1.34	2.21	2.18	5.16	1.56	16.42%	-69.77%
CEPS (Rs)	2	2.91	2.93	6.14	2.61		
OPM %	15.04	13.97	13.43	13.65	8.21		
NPM %	4.8	5.62	5.19	9.04	3.69		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	10,415	13,128	15,062	17,030	20,436	24,114	27,731
Other Operating Income	21	17	52	31	54	55	71
Expenditure	9,313	10,976	12,870	14,569	17,672	21,001	24,265
EBITDA	1,123	2,168	2,244	2,492	2,818	3,168	3,538
Depreciation	151	220	241	315	352	362	374
EBIT	973	1,948	2,003	2,176	2,466	2,806	3,164
Interest Expenses	605	583	570	611	753	877	1,015
PBT	367	1,366	1,433	1,565	1,712	1,929	2,148
Tax	98	474	482	450	555	615	677
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	269	892	951	1,115	1,157	1,314	1,471
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	269	892	951	1,115	1,157	1,314	1,471

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	102	102	102	102	102	102	102
Reserves & surplus	2,209	2,936	3,713	4,841	5,775	6,891	8,142
Share Warrants	-	-	-	-	-	-	-
Net worth	2,312	3,039	3,815	4,943	5,877	6,994	8,244
Minority Interest	-	-	-	-	-	-	-
Loan Funds	2,307	1,707	1,983	1,758	1,760	1,758	1,756
Net deferred tax liability	218	265	315	391	391	391	391
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	10	-	13	22	26	31	36
Total Liabilities	4,846	5,011	6,128	7,116	8,056	9,176	10,429
Net block	3,468	3,547	4,252	4,786	5,767	5,808	5,665
Investment, Loan & Adv.	21	31	22	150	180	226	248
Total Current Assets	5,326	7,059	7,629	8,374	9,998	12,239	14,818
Current Liabilities & Provisions	3,969	5,627	5,776	6,196	7,890	9,099	10,304
Net Current Assets	1,357	1,432	1,853	2,178	2,108	3,140	4,514
Total Assets	4,846	5,011	6,128	7,116	8,056	9,176	10,429

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	1,752	502	1,463	1,807
Cash Flow from Investments	(797)	(36)	(449)	(253)
Cash Flow from Financing	(1,087)	(271)	(534)	(705)
Net Changes in Cash	(132)	194	480	850
Opening Cash	146	15	209	689
Closing Cash Balance	15	209	689	1,539

Research Analyst Details

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