

Skipper Limited

BSE SENSEX
27,166.87

S&P CNX
8,335.95

CMP: INR157 TP: INR215 (+36%) Buy

(INR CRORES)

Y/E MARCH	FY16	FY17E	FY18E
Net sales	1,488	1,804	2,214
EBITDA	224	248	302
APAT	83	107	146
BV/Share (Rs.)	37.3	46.0	58.1
Adj. EPS (Rs.)	8.1	10.4	14.3
EPS growth (%)	36%	28%	37%
P/E (x)	19.3	15.1	11.0
P/BV (x)	4.2	3.4	2.7
EV/EBITDA (x)	9.7	8.1	6.4
Div yld (%)	1.3%	1.1%	0.9%
ROE (%)	28%	25%	28%
RoCE (%)	24%	25%	28%

KEY FINANCIALS

Shares Outstanding (cr)	10.2
Market Cap. (Rs cr)	1432
Market Cap. (US\$ m)	216
Past 3 yrs Sales Growth (%)	20%
Past 3 yrs NP Growth (%)	84%

STOCK DATA

52-W High/Low Range (INR)	220/117
Major Shareholders (as of March 2016)	
Promoter	72.4
Institutions	3.4
Public & Others	24.2
Average Daily Turnover(6 months)	
Volume	51521
Value (Rs cr)	87.8
1/6/12 Month Rel. Performance (%)	-2/-14/-9
1/6/12 Month Abs. Performance (%)	3/-8/-9

PGCIL capex will boost order book: Skipper is a supplier of transmission towers to Power Grid and has one of the largest capacity of towers at 200K tonnes in a 15Lakh tonne industry. India will invite bids for INR1 Lakh worth of power transmission projects in FY17, of which Power Grid is expected to win a lions share of EPC contracts. In addition to EPC, PGCIL is also expected to bag orders on nomination and is also expected to work on the Green corridor at a cost of INR30000cr. Hence, it will be in a position to start inviting bids for spends worth ~INR100,000cr in FY17. All this bodes well for Skipper, who has 46% of the order book from PGCIL and expects to maintain this ratio.

Re-orienting business to focus on domestic opportunities: Order backlog as of March 2016 end was flat at Rs.2429 cr Vs Rs.2448 cr in March 2015. However, the mix in FY16 has changed with 75% domestic orders Vs 50% last year. The company is now witnessing traction from certain state transmission electricity boards with Rs.600 cr of orders from them, which was nil last year. Global volatility in commodities coupled with business uncertainty has impacted order inflows from the South American region. The company has been able to deleverage itself by focussing on India for the next two years. Order traction from state transmission utilities can be the next driver for growth for the Engineering Products segment, with a huge potential depending on the success of the UDAY scheme. Additionally, larger private players entering the transmission sector can add to Skipper's customer profile and help it reduce its dependance on PGCIL.

Backward integration - an advantage for Skipper: Skipper has facilities to roll billets into angles that form the core of transmissison towers. Further, the company's facilities are in East India which has steel manufacturing capacities. Inward freight advantage is equal to 3-4% of total cost of tower as compared to majority of the tower manufacturing capacity which is set up near Nagpur (Maharashtra). Further, Skipper has galvanisaing facilities for upto 14M length and 2Lakh tonnes per annum. All this helps achieve the required quality standards cheap. Also, the company's plants are close to Eastern India's largest ports resulting in lower freight for exports too.

Valuations & View: We expect Skipper to have a 22% revenue CAGR and 32% Profit CAGR over FY16-FY18E.. Hence we see potential for a further rerating from the current 9.8x FY18E EPS. We value Skipper at 15x FY18E and recommend to BUY for a target of INR. 215 from a 1 year perspective.

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PVC - a new growth engine : Skipper had increased PVC pipes capacity from 10000 tonnes to 41000 tonnes during FY16 and Q1FY17. This was done in phases, following an asset light model. The company is in the process of ramping up production in its other units and the management expects volume to grow by about 70% and 50% in FY17 and FY18 respectively. The company leases land and sets up a plant so that land acquisition costs and time delays are eliminated. PVC, thus, has potential to become a INR500cr business in the next 3-4 years and raise ROCE of the company.

CONCERNS

Delay in order inflow or execution: Transmission towers account for about 90% of Skipper's sales and the existing order book gives it a visibility of about 2-2.5 years. However, any delay in execution or slowdown in order inflow (both from the domestic and export markets) will impact our earnings estimates.

Foreign exchange fluctuations: As Skipper books income from rolling over/cancellation of forward contracts immediately and the premium it earns depends on the spot rate at the time of roll over, it adds to the uncertainty in predicting the PBT.

New player in PVC segment: Although Skipper has a clear strategy in its expansion in this business, the sector is dominated by the likes of Finolex Industries, Astral Polytechnik, and Supreme Industries. Moreover, the management plans to take Skipper from a regional player to pan-India, following an asset-light strategy that is new to the industry. Any delay in expansion plans or inability to capture sufficient share in any of the markets will impact our growth estimates.

BACKGROUND

Skipper is a power transmission and PVC pipes company engaged in supply of transmission towers to PGCIL and sales of PVC pipes and fittings under the "Skipper Brand". The company has also bagged large orders for exports of power transmission towers. Skipper, run by three third generation and young Bansal brothers from Kolkotta, was listed on Kolkotta stock exchange earlier and is now listed on both the BSE and NSE.

Skipper Limited Financials & Valuation

INCOME STATEMENT (INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Net sales	1,042	1,270	1,488	1,804	2,214
Growth	16%	22%	17%	21%	23%
Other Income	2	44	23	0	0
Total Income	1,044	1,314	1,511	1,804	2,214
Staff Costs	24	34	50	62	78
Raw material	760	880	948	1,223	1,501
Other Expenses	139	172	289	271	332
Total Expenditure	923	1,086	1,287	1,556	1,912
EBITDA	120	229	224	248	302
% of net Sales	11.5%	17.4%	14.8%	13.8%	13.7%
Depreciation/Amortization	15	22	24	27	30
Finance Charges	69	70	57	60	55
PBT	37	136	143	161	217
- TAX	10	47	48	54	71
APAT	27	61	83	107	146
Growth	44%	127%	36%	28%	37%
PAT MARGIN	3 %	5 %	6 %	6 %	7 %

RATIOS					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Adjusted EPS (INR)	2.8	6.0	8.1	10.4	14.3
Growth (%)	44%	116%	36%	28%	37%
Cash EPS	4.3	8.1	10.5	13.1	17.2
Book Value	23.7	29.7	37.3	46.0	58.1
DPS	0.2	1.3	1.4	1.5	1.8
Payout (Incl. Div. Tax)	5%	22%	17%	14%	13%
P/E	56.8	26.3	19.3	15.1	11.0
Cash P/E	36.4	19.3	15.0	12.0	9.1
Price/Book Value	6.6	5.3	4.2	3.4	2.7
EV/EBITDA	16.1	10.2	9.7	8.1	6.4
EV/Sales	1.9	1.5	1.3	1.1	0.9
Div. Yld	0.1%	0.8%	0.9%	1.0%	1.1%
RoE	12%	33%	28%	25%	28%
RoCE	16%	24%	24%	25%	28%
Debt/Equity (x)	1.9	1.1	1.2	0.9	0.6

BALANCE SHEET (INRCR)					
Y/E MARCH	FY14	FY15	FY16	FY17E	FY18E
Share Capital	10	10	10	10	10
Reserves	221	294	372	460	584
Sources of Funds	231	304	382	470	594
Debt	439	343	440	420	370
Other Liabilities	1	0	1	0	0
Net deferred tax	22	26	31	31	31
SOURCES OF FUNDS	693	673	855	922	996
Gross Block	394	430	528	588	638
Less: Depreciation	(57)	(79)	(103)	(130)	(160)
Net Block	338	351	425	458	478
CWIP	8	3	0	0	0
Investments	0	0	0	0	0
Current Assets	533	706	765	867	1,012
Inventories	229	228	250	297	364
Sundry Debtors	232	376	372	451	522
Cash and Bank Balances	26	56	50	26	34
Loans and Advances	45	46	93	93	93
Other Current Assets	0	0	0	0	0
Current Liabilities	188	390	336	404	495
Net Current Assets	345	316	429	464	518
Other Assets	2	3	0	0	0
APPLICATION OF FUNDS	693	673	855	922	996

CASH FLOW (INRCR)					
Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
PBT before EO items	37	136	143	161	217
Add: Depreciation	15	22	24	27	30
Interest	69	70	57	60	55
(Inc)/Dec in WC	(12)	39	(118)	(60)	(50)
Others	(6)	(42)	(48)	(54)	(71)
CF from Operations	102	226	58	135	181
(Inc)/Dec in Fixed assets	(32)	(30)	(95)	(60)	(50)
Others	0	0	0	0	0
CF from Investing act.	(32)	(30)	(95)	(60)	(50)
Inc/(Dec) in debt	15	(96)	97	(20)	(50)
Dividend paid	(1)	(1)	(16)	(17)	(18)
Less: Interest paid	(69)	(70)	(57)	(60)	(55)
Others	(35)	0	0	0	0
CF from Financing act.	(57)	(166)	33	(101)	(124)
Inc/(Dec) in cash	13	30	(4)	(26)	8
Add: Beginning balance	13	26	56	52	26
Closing Balance	26	56	52	26	34

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