

Stock Update

Engineering business outlook intact

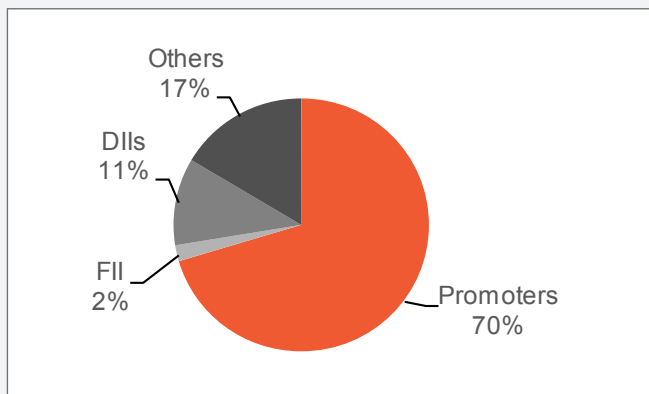
Skipper

Reco: Hold | CMP: Rs215

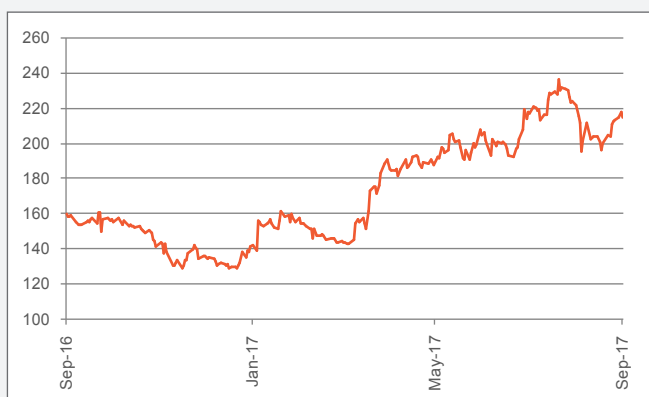
Company details

Price target:	Rs240
Market cap:	Rs2,200 cr
52-week high/low:	Rs240/125
NSE volume: (No of shares)	1.3 lakh
BSE code:	538562
NSE code:	SKIPPER
Sharekhan code:	SKIPPER
Free float: (No of shares)	3.03 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.0	5.1	51.3	36.0
Relative to Sensex	-0.5	2.8	35.8	20.4

Key points

- Earnings grew by 52% YoY due to healthy execution:** For Q1FY2018, Skipper reported better-than-expected topline growth of 40% YoY to Rs.399 crore due to spillover orders in the engineering segment from Q4FY2017 to Q1FY2018. The engineering segment grew by 42% YoY, driven by volume growth and realisation. The infrastructure segment showed robust growth with topline more than doubling to Rs.24 crore, while the PVC segment's revenue grew marginally by 3% YoY to Rs.43 crore due to slower restocking in channels post GST. Adjusted OPM declined by 90BPS to 12.9% due to a 79BPS decline in the engineering segment's PBIT margin to 12% and higher other expenses due to rise in export mix leading to higher freight and packaging cost. Adjusted operating profit grew by 31% YoY to Rs.52 crore despite fall in margins. Earnings showed a stellar performance during the quarter and came in line with our estimates, growing by 52% YoY to Rs.16 crore due to lower interest cost despite higher depreciation (up 59% YoY) and tax outflow.
- Order book provides revenue visibility of 1.6x:** During the quarter, Skipper secured new orders worth Rs.357 crore for transmission tower supply from Power Grid Corporation of India Limited (PGCIL), Transmission Corporation of Telangana Limited (TSTRANSCO), Uttar Pradesh Power Transmission Corporation Limited (UPPTCL) and for various supplies across Asia and Africa. The order inflow mix between PGCIL, domestic and exports stand at 29:54:17. Order book of Rs.2,640 crore at the end of Q1FY2018 provides revenue visibility of 1.6x its FY2017 revenue. Management stated that the bidding pipeline is Rs.1,300 crore for the company. Management expects order inflows to be similar to FY2017 sales, driven by orders from North East Transco, intra-state orders for monopoles, foray into solar structure manufacturing and recent entry in newer markets of Africa, LATAM and South East Asia. Management also sees uptick in investment from states (Telangana, Uttarakhand and Uttar Pradesh) in the inter-state transmission line. Management expects significant pick up in orders from domestic telecom companies for building of the tower. Capex for FY2018 is expected to be around Rs.85 crore, of which Rs.60 crore is expected to be spent for capacity expansion and Rs.25 crore for new tower testing station.

- ◆ **Maintain PT of Rs.240 but revise our rating to Hold:** Healthy order book provides revenue visibility of 1.6x its FY2017 revenue at the end of Q1FY2018. Further, management expects uptick in order inflows not only from the domestic market but also from export markets. However, management guided the change in mix in order inflows to shift from PGCIL to State Transcos and exports, where margin profile may be weak due to entry-level strategy. Hence, we have marginally tweaked our earnings estimates for FY2018 and have kept them unchanged for FY2019. However, management has maintained

its guidance for 15% topline growth with EBITDA margin at +13% for FY2018. Moreover, Skipper has entered into the field of solar mounting structure to reap benefits from Government's push to the solar energy sector. The stock has run up since our last update in Q4FY2017, which provides limited upside. Hence, we downgrade our rating on the stock to Hold from Buy but maintain our price target (PT) of Rs.240, given the strong earnings CAGR of 21% over FY2017-FY2019E, a leaner balance sheet and steady cash flows.

Results					Rs cr	
Particulars	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	
Net Sales	399	284	40.3	584	(31.7)	
Net raw material	377	177	112.7	377	-	
Employee cost	21	15	36.2	19	9.3	
Other exp.	79	52	51.1	97	(18.0)	
Operating profit	52	39	31.2	91	(43.4)	
Other income	1	1	(4.2)	1	(8.4)	
Interest	17	18	(5.7)	12	36.2	
Depreciation	11	7	59.2	10	7.3	
PBT	25	15	59.8	86	(71.2)	
Tax	9	5	77.3	17	(48.0)	
PAT	16	11	51.6	69	(76.9)	
EO	-	-		16		
Adj PAT	16	11	51.6	53	(69.7)	
Adj EPS	1.6	1.0	51.6	5	(69.7)	
			BPS		BPS	
OPM	12.9	13.8	(90)	16.1	(314)	
NPM	4.0	3.7	30	9.0	(504)	
Tax rate	35.5	32.0	349	19.6	1,585	

Valuations					Rs cr	
Particulars	FY15	FY16	FY17	FY18E	FY19E	
Net sales	1,280	1,506	1,703	1,943	2,247	
Growth (YoY) %	19.3	17.6	13.1	14.1	15.6	
Operating Profit	183	219	246	258	301	
OPM (%)	14.3	14.6	14.5	13.3	13.4	
Reported PAT	57	95	112	120	151	
Adjusted PAT	33	83	98	113	144	
Adjusted EPS	3.3	8.1	9.6	11.0	14.1	
Growth (YoY) %	24.5	148.0	17.8	15.1	28.1	
PER	65.9	26.6	22.6	19.6	15.3	
P/B	7.3	5.8	4.5	3.7	3.1	
EV/EBIDTA	13.5	11.6	10.4	9.7	8.1	
DE (x)	1.1	1.2	0.8	0.6	0.5	
Div Yield (%)	0.6	0.6	-	0.9	1.1	
RoCE (%)	24.4	26.1	24.0	22.8	24.5	
RoE (%)	12.5	24.2	22.3	20.8	22.1	
RoIC (%)	24.4	26.1	24.0	22.8	24.5	

Segmental performance					Rs cr
Particulars	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue					
Engineering Products	365	257	42.0	483	(24.4)
Infrastructure Projects	24	11	124.4	31	(22.8)
PVC products	43	42	3.2	69	(37.7)
Total Revenue	433	310	39.6	584	(25.9)
PBIT					
Engineering Products	44	33	33.3	77	(43.1)
PBIT margin %	12.0	12.8	(79)	16.0	(397)
Infrastructure Projects	3	1	99.3	4	(33.9)
PBIT margin %	12.1	13.7	(153)	14.2	(203)
PVC products	3	4	(14.9)	6	(46.5)
PBIT margin %	7.1	8.6	(151)	8.3	(117)
Total PBIT	50	38	31.2	88	(42.9)
Unallocated	8	5	77.2	5	53.2
PBT	25	15	59.8	70	(64.5)
Blended PBITM %	11.6	12.3	(74)	15.0	(344)

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