


Result Update@ Dalal & Broacha
BUY

Current Price	185
Target Price	271
Upside	48%
52 Week Range	292/133

Key Share Data

Market Cap (Rs.bn)	19
Market Cap (US\$ mn)	0.3
No of o/s shares (mn)	102
Face Value	1
Monthly Avg. vol(BSE+NSE) Nos	
In 000's	1.22
BSE Code	538562
NSE Code	SKIPPER
Bloomberg	SKIPPER IN

Price performance


% Shareholding	Mar-18	Dec-17
Promoters	70.23	70.35
Public	12.65	13.95
Others	17.12	15.76
Total	100	100

Q4 performance in-line with estimates, driven by engineering segment

Skipper reported 5% y-o-y topline growth. Engineering segment (83% of sales) reported 5% y-o-y increase in sales and PVC segment (13% of sales) revenue increased by 8% y-o-y. Infrastructure projects' revenue (4% of sales) revenue has gone down by 18%yoy.

- EBITDA margin for the quarter reduced by 200bps y-o-y to 18% largely due to execution of high margin orders in engineering segment. However, quarterly results are not truly comparable due to un-disclosed component of Forex adjustment for the quarter.

- EBIT margin for engineering product's increased from 16% to 18.5% while for PVC segment has gone down by 100bps to 7%. For infrastructure segment's margin down 40bps y-o-y.

Finance cost increased from Rs13cr to Rs23cr due to increase in short term borrowings.

PAT down 7% y-o-y.

Other highlights

Order inflow of Rs620cr: Skipper secured orders worth Rs620cr during the quarter as against. Order book stands at Rs26bn (1.5x FY18 sales). PGCIL/SEB/Export order book stands at 44%/40%/16% of total order book. Current bid-book stands at Rs20-25bn. Order pipeline remains strong as states like Jharkhand, Orissa and Bihar states remain active in issuing tenders. PGCIL has guided for capex of Rs250bn for FY19E. Management has guided for 15% topline growth for engineering segment.

PVC segment outlook: Post GST PVC segment growth rate has gone down to single digit. The company is facing pricing pressure in this segment due to lacklustre demand growth and competitive pressure from other organized players. Management expects outlook to improve for the segment in FY19E. Current utilization for the segment stands at 55%. Management has guided segment to report topline growth of 30-35% in FY19E on low base of FY18.

Railways & Solar contribution to increase: Management is optimistic on improving contribution from railways and solar segments. It targets to increase contribution from these segments to 15% of revenue by FY19E.

Capex funded through internal accruals: Capacity utilization for engineering products division is at 90%. Company has undertaken capex of Rs750mn for FY19E including Rs250mn for PVC segment. Company plans to increase engineering product's segment capacity through brownfield expansion by 15% in FY19E which will facilitate them to cater order book. As ramp up of PVC segment has been below expectations as division reaches optimum utilization Skipper will increase capacity for the segment.

Short term debt to increase: Short term borrowings increased from Rs240-290cr during the year. As a result, interest cost has gone up. Management expects working capital days to be maintained at 100 days. Therefore, with increasing sales short term debt is likely to go up.

Valuation: During FY18 engineering segment has performed better than expectations with topline increasing by 23% y-o-y while PVC segment reported growth of 7% which is below expectations. Management has guided for 15% growth in engineering segment and PVC segment revival in FY19E. Management is confident of growing segment by 30-35% We expect engineering segment to grow at 15% CAGR over FY17-20E and PVC segment to grow at a CAGR of 25% on low base of FY18. We expect company to post EPS of Rs14.3 and Rs18.2 for FY19E and FY20E respectively. At current price the stock is trading at 14x FY19E, 11x FY20E earnings. EV/EBITDA is at 7.4x FY19E and 6x FY20E EBITDA. **We recommend 'BUY' with target price of Rs271 which offers 48% upside potential.**

Financials (Consolidated)

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY16	15,062.2	15.0	2,192.5	14.6	951.3	7.0	9.3	19.9	24.9	23.5
FY17	17,029.6	13.1	2,460.4	14.4	1,115.0	17.2	10.9	17.0	22.6	23.6
FY18	20,737.0	21.8	3,025.3	14.6	1,177.4	5.6	11.5	16.1	21.4	23.0
FY19E	23,170.9	11.7	3,049.8	13.2	1,369.1	16.3	13.4	13.8	19.3	23.0
FY20E	27,342.4	18.0	3,652.6	13.4	1,740.5	27.1	17.0	10.9	20.3	25.0



Particulars (Rs Mn)	Q4FY18	Q3FY18	Q-o-Q %	Q4FY17	Y-o-Y %	FY18	FY17	Y-o-Y %
Net Sales	5,928.5	5,156.2	15%	5,837.3	2%	20,737.2	16,839.1	23%
Other Income	7.9	3.3	141%	8.2	-4%	21.9	31.5	-30%
Total Revenue	5,936.4	5,159.5	15%	5,845.5	2%	20,759.1	16,870.6	23%
Expenses								
Cost of Materials Consumed	4,184.9	3,854.9		3,823.2		14,688.2	11,729.5	25%
Changes in inventory of FG and WIP	(768.9)	(397.4)		(56.4)		(1,442.3)	(821.5)	76%
Total Raw Material Cost	3,416.0	3,457.5	-1%	3,766.7	-9%	13,245.9	10,908.0	21%
Gross Profit	2,520.4	1,701.9	48%	2,078.8	21%	7,513.2	5,962.6	26%
Employee benefit Expense	237.2	251.3	-6%	192.1	23%	934.0	730.8	28%
Other Expenses	1,189.6	764.5	56%	966.1	23%	3,531.8	2,576.0	37%
Total Expenses	4,842.8	4,473.3	8%	4,924.9	-2%	17,711.7	14,214.7	25%
EBITDA	1,093.6	686.1	59%	920.6	19%	3,047.4	2,655.9	15%
Depreciation	113.5	120.5	-6%	100.2	13%	459.1	315.6	45%
EBIT	980.1	565.6	73%	820.4	19%	2,588.3	2,340.3	11%
Finance Costs	239.3	200.3	19%	123.7	93%	784.5	658.5	19%
PBT	740.8	365.3	103%	696.7	6%	1,803.9	1,681.8	7%
Tax Expense	247.3	132.9	86%	168.9	46%	626.3	493.3	27%
PAT	493.5	232.4	112%	527.9	-7%	1,177.6	1,188.5	-1%
EPS	4.8	2.3		5.2		11.5	11.5	

Segmental Performance	Q4FY18	Q3FY18	Q-o-Q %	Q4FY17	Y-o-Y %	FY18	FY17	Y-o-Y %
Segment Revenue								
Engineering Products	4,923.6	4,863.3	1%	4,828.1	2%	18,071.9	14,810.3	22%
Polymer Products	748.1	539.9	39%	694.6	8%	2,148.9	2,081.9	3%
Infrastructure Products	256.8	261.0	-2%	314.6	-18%	855.4	811.0	5%
Total	5,928.5	5,664.2	5%	5,837.3	2%	21,076.2	17,703.2	19%
Segment Results								
Engineering Products	963.6	638.8	51%	772.8	25%	2,647.9	2,243.5	18%
EBIT%	20%	13%		16%		15%	15%	
Polymer Products	55.8	36.0	55%	57.7	-3%	150.9	165.2	-9%
EBIT%	7%	7%		8%		7%	8%	
Infrastructure Products	35.4	32.0	10%	44.5	-21%	108.1	114.8	-6%
EBIT%	13.8%	12%		14.2%		13%	14%	
Total	1,054.8	706.8	49%	875.0	21%	2,906.9	2,523.5	15%



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P&L (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	15,062.2	17,029.6	20,737.0	23,170.9	27,342.4	Net Profit	951.3	1,115.0	1,177.4	1,369.1	1,740.5
Raw Materials	(9,484.9)	(10,908.0)	(13,245.9)	(15,176.9)	(17,909.3)	Add: Dep. & Amort.	241.2	315.5	459.1	405.3	460.1
Employee Cost	(499.6)	(731.5)	(934.0)	(1,074.6)	(1,214.3)	Cash profits	1,192.5	1,430.4	1,636.5	1,774.4	2,200.7
Other Expenses	(2,885.2)	(2,929.7)	(3,531.8)	(3,869.5)	(4,566.2)	(Inc)/Dec in					
Operating Profit	2,192.5	2,460.4	3,025.3	3,049.8	3,652.6	-Sundry debtors	34.1	(6.0)	(641.5)	(703.4)	(913.6)
Depreciation	(241.2)	(315.5)	(459.1)	(405.3)	(460.1)	-Inventories	(217.5)	(1,181.9)	(633.3)	(694.4)	(901.9)
PBIT (Excl O. Income)	1,951.3	2,144.9	2,566.2	2,644.5	3,192.5	-Loans/advances	(440.8)	66.3	(93.8)	(104.3)	(116.0)
Other income	51.7	31.3	21.9	18.4	18.4	^-Current Liab and					
Interest	(570.0)	(611.0)	(784.5)	(565.6)	(544.5)	Provisions	(634.4)	548.9	602.4	726.4	841.0
PBT	1,433.0	1,565.2	1,803.7	2,097.3	2,666.3	Change in working capital	(1,258.5)	(572.6)	(766.3)	(775.8)	(1,090.5)
Exceptionals	-	-	-	-	-	CF from Oper. activities	(66.1)	857.8	870.2	998.6	1,110.1
Profit before tax (post exceptional)	1,433.0	1,565.2	1,803.7	2,097.3	2,666.3	Capex					
Provision for tax	481.7	450.2	626.3	728.2	925.8	CF from Inv. activities	(945.7)	(849.8)	(619.5)	(650.0)	(600.0)
Reported PAT	951.3	1,115.0	1,177.4	1,369.1	1,740.5	CF from Fin. activities	948.8	(256.8)	(42.2)	(207.6)	(470.1)
MI	-	-	-	-	-	Cash generated/(utilised)	(63.0)	(248.8)	208.6	141.0	40.0
Net Profit	951.3	1,115.0	1,177.4	1,369.1	1,740.5	Cash at start of the year	262.3	511.1	262.3	175.8	610.5
						Cash at end of the year	511.1	262.3	175.8	610.5	650.5
Balance Sheet	FY16	FY17	FY18	FY19E	FY20E	Ratios	FY16	FY17	FY18	FY19E	FY20E
Equity capital	102.3	102.3	102.6	102.3	102.3	OPM	14.6	14.4	14.6	13.2	13.4
Reserves	3,712.9	4,840.7	6,270.2	7,009.7	8,480.1	NPM	6.3	6.5	5.7	5.9	6.4
Net worth	3,815.2	4,943.0	6,372.7	7,112.0	8,582.4	Tax rate	33.6	28.8	34.7	34.7	34.7
MI	-	-	-	-	-	Growth Ratios (%)					
Non Current Liabilities	2,311.5	2,171.1	2,255.1	2,084.1	1,986.7	Net Sales	15	13.1	21.8	11.7	18.0
Current Liabilities	5,775.9	6,195.5	8,807.4	7,841.3	8,579.6	Operating Profit	1.9	12.2	23.0	0.8	19.8
CAPITAL EMPLOYED	11,902.6	13,309.7	17,435.3	17,037.4	19,148.8	PBIT	1.0	9.9	19.6	3.1	20.7
Non Current Assets	4,260.5	4,923.0	5,262.6	5,480.2	5,649.8	PAT	7%	17%	6%	16%	27%
Fixed Assets	4,238.7	4,773.1	5,200.4	5,281.8	5,421.7	Per Share (Rs.)					
Goodwill	-	-	-	-	-	Net Earnings (EPS)	9.3	10.9	11.5	13.4	17.0
Non Current Investments	-	-	-	-	-	Cash Earnings (CPS)	11.7	14.0	16.0	17.3	21.5
Deferred Tax Asset	-	-	29.5	-	-	Dividend	1.4	1.6	1.8	2.0	2.2
Long Term Loans and	21.8	150.0	32.7	198.4	228.1	Book Value	37.3	48.3	62.1	69.5	83.9
Current Assets	7,642.1	8,386.6	12,172.7	11,557.2	13,499.0	Free Cash Flow	(9.9)	0.1	2.4	3.4	5.0
Current investments	-	-	-	-	-	Valuation Ratios					
Inventories	2,499.9	3,681.8	5,622.7	5,009.5	5,911.4	P/E(x)	19.9	17.0	16.1	13.8	10.9
Trade Receivables	3,723.7	3,729.7	5,164.4	5,074.7	5,988.3	P/B(x)	5.0	3.8	3.0	2.7	2.2
Cash and Bank Balances	511.1	262.3	175.8	610.5	650.5	EV/EBIDTA(x)	10.5	9.3	7.7	7.4	6.2
Short Term Loans and	907.4	712.9	38.2	862.6	948.8	Div. Yield(%)	0.8	0.8	1.0	1.1	1.2
Other Current Assets	-	-	1,171.6	-	-	FCF Yield(%)	(5.3)	0.0	1.3	1.8	2.7
CAPITAL DEPLOYED	11,902.6	13,309.7	17,435.3	17,037.4	19,148.8	Return Ratios (%)					
						ROE	24.9%	22.6%	21.4%	19.3%	20.3%
						ROCE	23.5%	23.6%	23.0%	23.0%	25.0%



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