



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

Q1FY19 Result Update@ Dalal & Broacha

SELL

| | |
|---------------|---------|
| Current Price | 120 |
| Target Price | 135 |
| Upside | 12% |
| 52 Week Range | 292/133 |

Key Share Data

| | |
|-------------------------|------------|
| Market Cap (Rs.bn) | 12.4 |
| Market Cap (US\$ bn) | 0.2 |
| No of o/s shares (mn) | 102 |
| Face Value | 1 |
| Monthly Avg. | |
| Vol(BSE+NSE) Nos ('000) | 88 |
| BSE Code | 538562 |
| NSE Code | SKIPPER |
| Bloomberg | SKIPPER IN |

Price performance



| % Shareholding | Jun-18 | Mar-18 |
|----------------|------------|------------|
| Promoters | 70.17 | 70.23 |
| Public | 17.47 | 17.12 |
| Others | 12.36 | 17.36 |
| Total | 100 | 100 |

| 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 | 12.9 | 24.9 | 23.5 |
| FY17 | 17,029.6 | 13.1 | 2,460.4 | 14.4 | 1,115.0 | 17.2 | 10.9 | 11.0 | 22.6 | 23.6 |
| FY18 | 20,737.0 | 21.8 | 3,025.3 | 14.6 | 1,177.4 | 5.6 | 11.5 | 10.5 | 20.7 | 23.1 |
| FY19E | 22,659.0 | 9.3 | 2,890.7 | 12.8 | 1,156.6 | (1.8) | 11.3 | 10.6 | 13.4 | 18.3 |
| FY20E | 25,515.1 | 12.6 | 3,123.2 | 12.2 | 1,237.5 | 7.0 | 12.1 | 9.9 | 14.4 | 19.6 |

Q1FY19 performance below expectations, polymer segment disappoints

Adjusting for GST Skipper has reported 20%yoy topline growth in Q1FY19. Engineering segment reported 20% topline growth and Polymer segment reported 45% topline growth. Skipper had posted Rs27cr forex gain during Q1FY18. Adjusting for the same EBITDA has gone up by 25% yoy. EBITDA margin has gone up by 100bps to 11%. Margin for engineering products increased from 10% to 11%. Polymer segment margin has gone down. Working capital increased due to increase in inventory. As a result debt increased during the quarter by increasing interest cost by 62% yoy. Pre-forex PBT is down 12%. On reported basis PAT is down 70% yoy.

Other highlights

Order inflow of Rs225cr: Order inflow during the quarter is down 37.5% yoy to Rs.225 crores during Q1 of FY19 spread across power transmission & distribution structures and other engineering products like Telecom Towers from projects of Power Grid Corporation of India Limited (PGCIL), SEBs and other players. Order book stands at Rs25bn(1.2x FY18 sales). PGCIL/SEB/Export order book stands at 45%/40%/15% of total order book. PGCIL has guided for capex of Rs250bn for FY19E. T&D orders have gone down by 50% yoy during Q1FY19 from central and states. Considering the same we feel management's guidance to grow revenue by 15% is ambitious. We curtail our revenue growth to 10% for Engineering products segment.

PVC segment outlook: The company has hired Vector Consultancy to implement the principals of TOC (Theory of Constraints) to strengthen its position in the sector. Management expects growth to pick-up due to such initiatives. As company has increased dealers incentives margin for the segment got impacted during the quarter. The margin is likely to remain low single digit over next two quarters.

Railways & Solar contribution to increase: Management is optimistic on improving contribution from railways and solar segments. It targets to increase contribution from these segments.

Capex funded through internal accruals: Capacity utilization for engineering products division is at 90%. Management has guided for capex of Rs500-600mn for engineering 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: During the quarter inventory has increased leading to increase in working capital requirement. Management expects it normalize to 90 days. Short term borrowings increased from Rs290-310cr during the quarter. As a result interest cost has gone up. Management guided for Rs900-920mn of interest cost for the year.

Valuation: We reduce our topline growth estimates for engineering products' division to 10% due to reduced order inflows. For PVC segment we expect topline to grow at 25%. We reduce our EBITDA% estimates for engineering products' division to 13% from 15% earlier and the same for PVC segment to 4.5% from 9% earlier. We expect overall margin for Skipper to go down from 14.6% in FY18 to 12.8% in FY19E. Therefore, bottomline for the company to grow at a CAGR of 3% over FY18-20E. Skipper is trading at 11x FY19E and 10x FY20E earnings and 6.6x FY19E and 6x FY20E EV/EBITDA. **We Downgrade 'Skipper' to SELL with price target of Rs'135'.**



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Financial Performance

| Particulars (Rs Mn) | Q1FY19 | Q1FY18 | Y-o-Y% | Q4FY18 | Q-o-Q% |
|----------------------------------|----------------|----------------|-------------|----------------|-------------|
| Net Sales | 4,786.9 | 3,988.3 | 20% | 5,928.5 | -19% |
| Other Income | 3.2 | 7.5 | -57% | 7.9 | -59% |
| Total Revenue | 4,790.1 | 3,995.8 | 20% | 5,936.4 | -19% |
| Expenses | | | | | |
| Cost of Materials Consumed | 3,658.7 | 2,955.8 | | 4,184.9 | |
| Changes in inventory of FG and I | (405.8) | (485.7) | | (768.9) | |
| Total Raw Material Cost | 3,252.9 | 2,470.2 | 32% | 3,416.0 | -5% |
| Gross Profit | 1,537.3 | 1,525.6 | 1% | 2,520.4 | -39% |
| Employee benefit Expense | 234.6 | 210.0 | 12% | 237.2 | -1% |
| Other Expenses | 849.8 | 792.0 | 7% | 1,189.6 | -29% |
| Total Expenses | 4,337.2 | 3,472.2 | 25% | 4,842.8 | -10% |
| EBITDA | 452.9 | 523.6 | -14% | 1,093.6 | -59% |
| Depreciation | 115.2 | 107.5 | 7% | 113.5 | 2% |
| EBIT | 337.7 | 416.1 | -19% | 980.1 | -66% |
| Finance Costs | 274.0 | 168.6 | 63% | 239.3 | 14% |
| PBT | 63.7 | 247.6 | -74% | 740.8 | -91% |
| Tax Expense | 18.8 | 87.8 | -79% | 247.3 | -92% |
| PAT | 44.9 | 159.8 | -72% | 493.5 | -91% |
| EPS | 0.4 | 1.6 | | 4.8 | |

| Segmental Performance | Q1FY19 | Q1FY18 | Y-o-Y% | Q4FY18 | Q-o-Q% |
|-------------------------|----------------|----------------|-------------|----------------|-------------|
| Segment Revenue | | | | | |
| Engineering Products | 4,040.9 | 3,651.4 | 11% | 4,923.6 | -18% |
| Polymer Products | 560.9 | 433.0 | 30% | 748.1 | -25% |
| Infrastructure Products | 185.2 | 242.8 | -24% | 256.8 | -28% |
| Total | 4,787.0 | 4,327.2 | 11% | 5,928.5 | -19% |
| Segment Results | | | | | |
| Engineering Products | 401.9 | 439.5 | -9% | 963.6 | -58% |
| EBIT% | 10% | 12% | | 20% | |
| Polymer Products | (7.5) | 30.9 | -124% | 55.8 | -113% |
| EBIT% | -1% | 7% | | 7% | |
| Infrastructure Products | 23.8 | 29.5 | -19% | 35.4 | -33% |
| EBIT% | 12.9% | 12% | | 13.8% | |
| Total | 418.3 | 499.8 | -16% | 1,054.8 | -60% |



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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 | 22,659.0 | 25,515.1 | Net Profit | 951.3 | 1,115.0 | 1,177.4 | 1,156.6 | 1,237.5 |
| Raw Materials | (9,484.9) | (10,908.0) | (13,245.9) | (14,615.0) | (16,584.8) | 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 | 1,561.9 | 1,697.7 |
| Other Expenses | (2,885.2) | (2,929.7) | (3,531.8) | (4,078.6) | (4,592.7) | (Inc)/Dec in | | | | | |
| Operating Profit | 2,192.5 | 2,460.4 | 3,025.3 | 2,890.7 | 3,123.2 | -Sundry debtors | 34.1 | (6.0) | (641.5) | (595.1) | (626.0) |
| Depreciation | (241.2) | (315.5) | (459.1) | (405.3) | (460.1) | -Inventories | (217.5) | (1,181.9) | (633.3) | (1,272.0) | (704.3) |
| PBIT (Excl O. Income) | 1,951.3 | 2,144.9 | 2,566.2 | 2,485.4 | 2,663.1 | -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) | (880.0) | (880.0) | Provisions | (634.4) | 548.9 | 602.4 | 580.1 | 642.5 |
| PBT | 1,433.0 | 1,565.2 | 1,803.7 | 1,623.8 | 1,801.5 | Change in working capital | (1,258.5) | (572.6) | (766.3) | (1,391.3) | (803.8) |
| Exceptionals | - | - | - | - | - | CF from Oper. activities | (66.1) | 857.8 | 870.2 | 170.6 | 893.9 |
| Profit before tax (post exceptional) | 1,433.0 | 1,565.2 | 1,803.7 | 1,623.8 | 1,801.5 | Capex | | | | | |
| Provision for tax | 481.7 | 450.2 | 626.3 | 467.1 | 563.9 | CF from Inv. activities | (945.7) | (849.8) | (619.5) | (650.0) | (600.0) |
| Reported PAT | 951.3 | 1,115.0 | 1,177.4 | 1,156.6 | 1,237.5 | CF from Fin. activities | 948.8 | (256.8) | (42.2) | 903.8 | (470.1) |
| MI | - | - | - | - | - | Cash generated/(utilised) | (63.0) | (248.8) | 208.6 | 424.3 | (176.2) |
| Net Profit | 951.3 | 1,115.0 | 1,177.4 | 1,156.6 | 1,237.5 | Cash at start of the year | 262.3 | 511.1 | 262.3 | 175.8 | 563.9 |
| | | | | | | Cash at end of the year | 511.1 | 262.3 | 175.8 | 563.9 | 210.4 |

| 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 | 12.8 | 12.2 |
| Reserves | 3,712.9 | 4,840.7 | 6,270.2 | 6,467.3 | 7,257.4 | NPM | 6.3 | 6.5 | 5.7 | 5.1 | 4.8 |
| Net worth | 3,815.2 | 4,943.0 | 6,372.7 | 6,569.6 | 7,359.7 | Tax rate | 33.6 | 28.8 | 34.7 | 28.8 | 31.3 |
| MI | - | - | - | - | - | Growth Ratios (%) | | | | | |
| Non Current Liabilities | 2,311.5 | 2,171.1 | 2,255.1 | 2,417.4 | 2,320.1 | Net Sales | 15 | 13.1 | 21.8 | 9.3 | 12.6 |
| Current Liabilities | 5,775.9 | 6,195.5 | 8,807.4 | 8,473.1 | 9,012.9 | Operating Profit | 1.9 | 12.2 | 23.0 | (4.4) | 8.0 |
| CAPITAL EMPLOYED | 11,902.6 | 13,309.7 | 17,435.3 | 17,460.2 | 18,692.8 | PBIT | 1.0 | 9.9 | 19.6 | (3.1) | 7.1 |
| Non Current Assets | 4,260.5 | 4,923.0 | 5,402.4 | 5,480.2 | 5,649.8 | PAT | 7% | 17% | 6% | -2% | 7% |
| 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 | 11.3 | 12.1 |
| Non Current Investments | - | - | - | - | - | Cash Earnings (CPS) | 11.7 | 14.0 | 16.0 | 15.3 | 16.6 |
| Deferred Tax Asset | - | - | 29.5 | - | - | Dividend | 1.4 | 1.6 | 1.8 | 2.0 | 2.2 |
| Long Term Loans and Advances | 21.8 | 150.0 | 172.5 | 198.4 | 228.1 | Book Value | 37.3 | 48.3 | 62.1 | 64.2 | 71.9 |
| Current Assets | 7,642.1 | 8,386.6 | 12,033.0 | 11,980.0 | 13,043.0 | Free Cash Flow | (9.9) | 0.1 | 2.4 | (4.7) | 2.9 |
| Current investments | - | - | - | - | - | Valuation Ratios | | | | | |
| Inventories | 2,499.9 | 3,681.8 | 5,622.7 | 5,587.1 | 6,291.4 | P/E(x) | 12.9 | 11.0 | 10.5 | 10.6 | 9.9 |
| Trade Receivables | 3,723.7 | 3,729.7 | 5,164.4 | 4,966.4 | 5,592.4 | P/B(x) | 3.2 | 2.5 | 1.9 | 1.9 | 1.7 |
| Cash and Bank Balances | 511.1 | 262.3 | 175.8 | 563.9 | 210.4 | EV/EBIDTA(x) | 7.4 | 6.6 | 5.4 | 6.0 | 5.6 |
| Short Term Loans and Advances | 907.4 | 712.9 | 38.2 | 862.6 | 948.8 | Div. Yield(%) | 1.2 | 1.3 | 1.5 | 1.7 | 1.8 |
| Other Current Assets | - | - | 1,031.8 | - | - | FCF Yield(%) | (8.2) | 0.1 | 2.0 | (3.9) | 2.4 |
| CAPITAL DEPLOYED | 11,902.6 | 13,309.7 | 17,435.3 | 17,460.2 | 18,692.8 | Return Ratios (%) | | | | | |
| | | | | | | ROE | 24.9% | 22.6% | 20.7% | 13.4% | 14.4% |
| | | | | | | ROCE | 23.5% | 23.6% | 23.1% | 18.3% | 19.6% |



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