



GNAM Investment Competition

Indian Institute of Management-Bangalore
Skipper Ltd

30/10/2016

Anupama K H

Meghana Manay

Rubaina K P

Gayatri Iyer

Nikhil Goyal

Snehanshu Rai



भारतीय प्रबंध संस्थान बेंगलूर

INDIAN INSTITUTE OF MANAGEMENT
BANGALORE



Skipper Ltd –Key Highlights

- India's top power T&D (Transmission and Distribution) structure and polymer products manufacturer
- Good past performance, improving operating efficiency, healthy book order and conducive macro-environment.
- We suggest a buy recommendation on the stock with target price INR 165.87 in the next 6 months and INR 183.78 for 12 months
 - YoY 6.68% profit growth
 - 72.05% profit growth in 3 yrs
 - 14.73% growth in net sales in FY15-16
 - Book order of Rs. 2400 Cr
 - New market penetration- Kenya, Congo, Ghana, Cameroon and Malaysia
 - Many govt. projects in the pipeline to aid future growth

12-m Rating	Buy
12-m Price target	INR 183.78
Current Price	INR 149.55
Upside	22.89%



Skipper Ltd –Key Highlights

- Lower valuation, improvements in PVC business and strong book orders has made Skipper a new favorite of analysts
- Skipper Stock Price vs. Other Power Companies(Over the last 71 days)

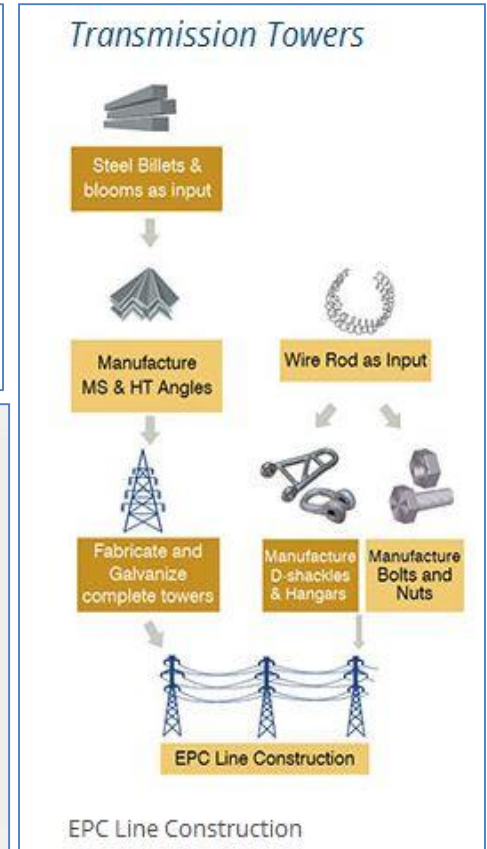
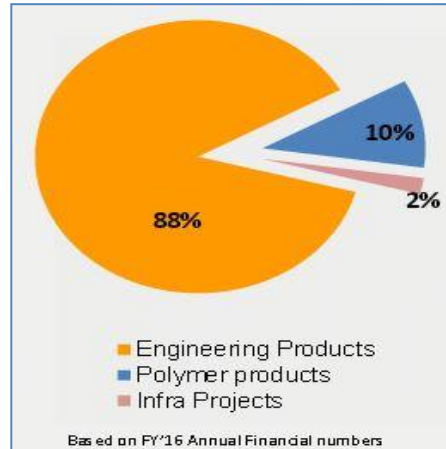


Company Profile

Skipper Ltd. is among India's top 3 Power T&D (Transmission & Distribution) structure manufacturers' and amongst the top 10 largest manufacturers in the world.

Business Segments:

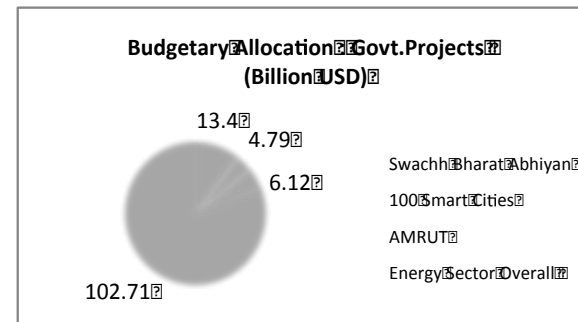
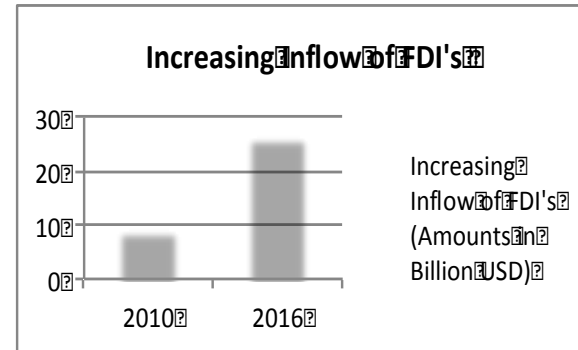
- Engineering products with net sales of Rs 1,282.2 Cr and 3 yr CAGR of 15.4%
- Polymer Products with net sales of 152.5 Cr and 3 yr CAGR of 46.9%
- Infra-projects with net sales of 27.7 Cr and 3 yr CAGR of 17.1%





Macro Analysis - India

- Increasing inflow of FDI's largely applied to the Industrial, Manufacturing and Engineering sector
- The spending on engineering services is projected to increase to US\$ 1.1 trillion by 2020
- The Union Budget 2016-17 has made record allocation of Rs 221,246 crore (US\$ 33.07 billion) for several infrastructure projects
- Swacch Bharat Abhiyan and SMART city projects to increase govt spending on renewable energy and urban water supply projects
- GST (Goods and Services Tax) to improve business conditions in India significantly



Financial Analysis - Past

Proven track record

- FY16 YoY sales of 14.73% , net profit grew by 6.68% with an ROE of 24.9%
- Book order of Rs 2,400 Cr.
- PVC segment is fastest growing with 50% growth since its launch 5 yrs ago
- FY16 performance was comparatively lower than FY15 due to delayed execution in projects and increase in employee and administrative costs

YoY	FY14	FY15	FY16	FY17E	FY18E
Sales	1,073.05	1,312.80	1,506.22	1788.67	2121.54
%Growth	19.2%	22.3%	14.7%	18.8%	18.6%
Expenses	954.88	1,085.47	1,279.16	1529.91	1790.18
Operating Profit	118.17	227.33	227.06	258.76	331.36
OPM	11.0%	17.3%	15.1%	14.5%	15.6%
Other Income	2.13	1.66	5.17	10.34	20.68
Interest	68.52	70.43	64.82	59.66	54.90
Depreciation	15.08	21.99	24.12	26.46	29.02
Profit before tax	36.7	136.57	143.29	182.99	268.12
Tax	9.79	47.39	48.17	54.90	80.44
Net Profit	26.91	89.17	95.13	128.09	187.68
(% of Sales)	2.51%	6.79%	6.32%	7.16%	8.8%
EPS (unadj)	2.6	8.45	9.01	12.52	18.35
Dividend Payout (%of PAT)	5.72	14.92	15.05	22.97	33.66

Financial Analysis – Projections

Future Growth

- Skipper’ s revenue to grow by 19% and 7.16% net profit in FY17E.
- Using Gordon’ s growth model ,we expect the target stock price to grow from INR 149.55 to INR 165.87 in 6 months.

Using Gordon Constant Growth Model	
Dividend Per share	1.40
Dividend Yield	0.0093
Industry Growth Rate + Inflation Rate	0.203
Expected Divided Return Rate(k)	0.21
Then:	
Expected Divided Return Rate(k)	0.21
Dividend Yield+Expected Dividend Rate(k)	0.22
Adding 1 to previous figure	1.22
Expected Growth Rate of Share: Multiple to the power of no. of years(we have assumed 6 months i.e. 0.5)	1.11
Current Price of Share (taken from Screener)	149.95
Future Value of Share (Multiple B12 with B13)	165.87
Change in Share Price	11%
Engineering Industry Growth Rate	
Perpetual Rate (Inflation Rate)	5.6
	20.3

Growth factors

- Improved YoY operational efficiency
- India's only one stop engineering solution provider for power T&D segment
- Growing industry:

Power T&D segment: Projects currently under bidding:

- Rs 10,000 Cr project for power transmission in North-east region in India
- Rs 25,000 Cr project for Raipur Pugulur transmission project
- Rs 40,000 Cr project for Green corridor projects for Western region in India for renewable power sources

PVC segment: PVC pipes and fittings market is projected to grow @ 15% CAGR in FY15-19E.



Growth Factors

- **Expansion plans to cater to future opportunities:**
 - Increased its PVC capacity from 35000 MTA to 41000 MTA in FY16
 - Plans to increase capacity ten-fold by FY19
 - Tie-up with Sekisui of Japan for CPVC compound and Wavin Group of Netherlands for advanced plumbing solutions.
- **Improved credit rating:** External credit rating has been upgraded by CARE from A- to A+. Reduces costs of debt and aids expansion plans
- **Diversified book order:**
 - Moving from zonal to national level by moving into South Indian regions in PVC segment.
 - Expanding its product range with CVPC plumbing products.
 - Increased its international reach by entering newer markets in Asia and Africa.

Risks and Conclusion

Risks

- **Low bid to confirmed orders conversion:** Future projections based on projects in bidding phase, lower than expected inflow would affect their net sales and revenues
- **Delayed project execution:** Project delays in FY17-18 can negatively affect the company's performance.

Conclusion:

- Proven track record, healthy book order, huge opportunities ,positive macro conditions to fuel Skipper's growth in 3-4 Yrs.
- Good option for investors to buy
- We expect the stock prices to grow from Rs 149.55 to INR 165.87 in the next six months.