**GNAM Investment Competition**

**Business School Name:** **Indian Institute of Management, Bangalore**

**Security Analysis:** **SKIPPER LTD**

**Investment portfolio :**

**Marico Ltd**

**National Fittings Ltd**

**Bluechip Tex Fuel Industries Ltd**

**Ajanta Pharma Ltd**


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**Security Analysis - Skipper Ltd**

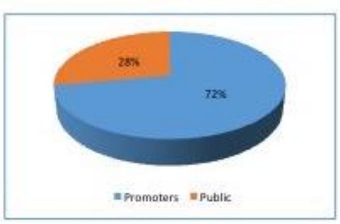
## Investment Idea 1: Skipper Ltd

Skipper Limited is one of the world's largest Integrated Transmission Tower manufacturing companies with Angle Rolling, Tower, Accessories & Fastener manufacturing and EPC line construction, a leading and respected brand in the Plastic Water Pipes sector as well as trusted partner for executing critical Infrastructure EPC projects.


**Price Chart**

## 1. Key Highlights:

| Skipper Ltd. | |
|---|---|
| BSE Security ID: | SKIPPER |
| BSE Security Code: | 538562 |
| ISIN: | INE439E01022 |
| ₹ 149.55<br>Current Value | ₹ 183.78<br>Price Target-12 Months |
| ₹ 1534.75<br>Market Cap | ₹219/ ₹122<br>52-Week High/Low |



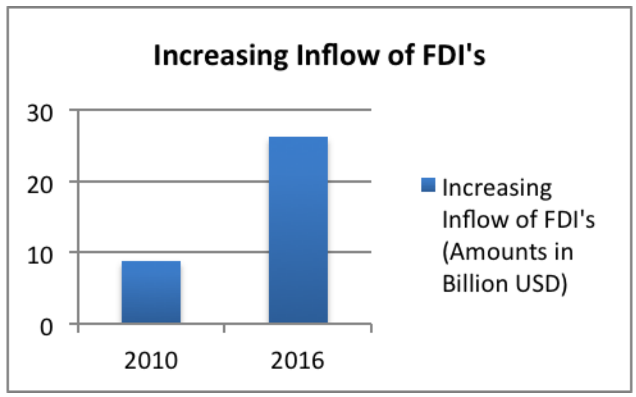

**Good past performance:** Skipper has been performing extremely well, posting healthy YoY 6.68% profit growth and an overall 72.05% profit growth in 3 yrs. Company has seen 14.73% growth in net sales from Rs 1312 Cr to 1506.23 Cr in FY15-16. Its international business has contributed to higher EBITDA margins and its share of export to total revenue is 45%. Massive expansion in both local and international markets, aggressive bidding for future projects aided by improved assets turnover and operational efficiency makes Skipper a strong contender in power T&D (Transmission and Distribution) lines and PVC (Poly Vinyl Chloride) pipes supplier in India and for global markets.

**Healthy book order value and positive outlook:** Skipper has got a healthy book order of Rs. 2400 Cr, with its PVC segment being the fastest growing segment. The management expects the business to double every year for the next 3-4 yrs. It has set up a new manufacturing unit in Hyderabad with a capacity of 6000 MTPA to improve its presence in South Indian states. It has also entered new markets in Asia and Africa by bagging orders for engineering products in Kenya, Cameroon, Congo, Ghana and Malaysia.

**Conducive macro environment to maintain growth:** With good past performance, improving operating efficiency, healthy book order and conducive macro-environment (GST, AMRUT, energy & power supply as some of the top priorities at the central government level), we predict 19% revenue CAGR for FY2016-17. 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.

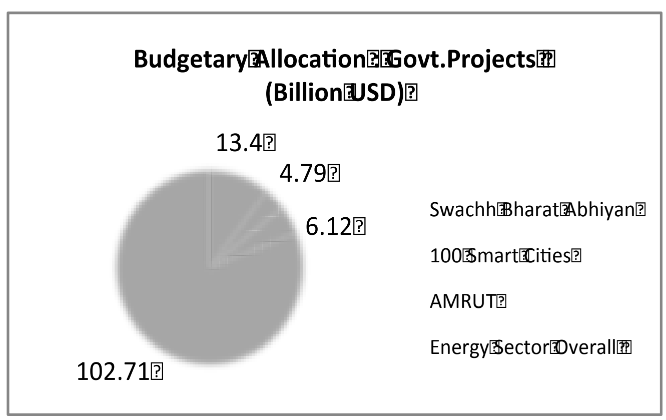
## 2. Macro Analysis:

**Engineering sector is a growing market:** The Indian engineering sector is of strategic importance to the economy owing to its intense integration with other industry segments, namely manufacturing and infrastructure. On its quest to become a global super power the country has taken several strides to develop this sector, most importantly de-licensing it by a 100%. In addition to this, the government has relaxed the excise duties on factory gate tax, capital goods, consumer durables and vehicles. 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, which is further expected to provide a boost to the engineering sector. Thus the industry can also look forward to deriving revenues from newer services and from newer geographies. The government has also taken steps to improve the quality of technical education in the engineering sector by allocating a sum of Rs 500 crore (US$ 75.33 million) for setting up five more IITs in the states of Jammu, Chhattisgarh, Goa, Andhra Pradesh and Kerala.




**Swachh Bharat Abhiyan and 100 Smart Cities Projects:** The government is striving to improve elements that constitute to Critical Human Infrastructure, such as Power, Water and TeleCommunications, through initiative like '100 Smart Cities Project, Swacch Bharat Abhiyan, AMRUT and the UDAY Scheme (which is specifically for power distribution).

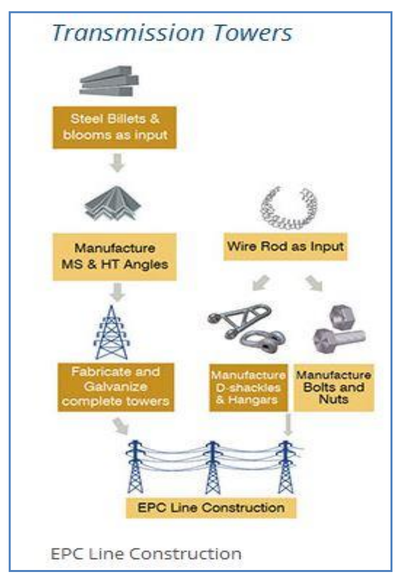
*'100 Smart Cities Project'* is an effort on the part of the government to provide reliable utility services, sanitation, solid waste management, storm water drainage, energy efficiency and improved access to information for



a set of identified cities in India. Budgetary allocations have been made and with support pouring in from countries such as Singapore, Japan, Germany and the US in terms of offering technical expertise, the draft concept paper defining the contours of these 'Smart Cities' is now starting to actualize. *Swachh Bharat Abhiyan*, meaning Clean Mission India, is another national campaign by the Government of India, covering 4,041 statutory cities and towns, to clean the streets, roads and infrastructure of the country. In both campaigns, adoption of smart grids or distribution automation will be given great importance along with telecommunications. The *UDAY scheme* is one such that comprises four initiatives - improving operational efficiencies of discoms, reduction of cost of power, reduction in interest cost of discoms and enforcing financial discipline on discoms through alignment with state finances.

**GST Implementation:** GST is a single unified tax on the supply of goods and services, right from the manufacturer to the consumer, which will make India one unified common market. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. The GST aims to reduce the number of applied indirect taxes into one single tax which does not allow for double taxation to the final consumer, thus lowering the taxes paid by the individual in the long run. As such GST will be one of the most significant reforms that any country has ever made and its impact will be positively seen in the long run, affecting all factors of production and economies. In the immediate short run however, it is suggested that it will temproairly raise the inflation rate of the country from 5.6% to maybe a 5.7%-5.8% but not more. We have factored this into our analysis. GST is set to be in affect from April 2017.

## 3. Company Profile:

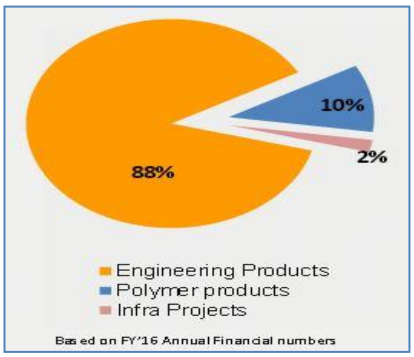



Skipper Ltd. is one of the world's leading manufacturer for T&D (Transmission and Distrubution Structures ) in its Engineering Products division, leader in PVC water pipes segment and also a well-trusted partner in excecuting Infrastructure EPC (Engineering Procurement Construction) projects.

Skipper is among India's top 3 Power Transmission & Distrubution (T&D) structure manufacturer in India and amongst the top 10 largest manufacturers in the world. With T&D structure capacity of over 200,000 MTPA (Million Tonnes Per Annum), it provides complete integrated offering of sourcing Towers, Fasteners, Accessories as well as EPC construction. It has global presence in around 20 countries including South America, Europe, Africa, the Middle East, South and Southeast Asia and Australia.

Skipper is the largest producer of PVC pipes in West Bengal and has a market share of 10% in Eastern India. It offers a huge range of pipes and fittings, used in plumbing, sewage, agriculture and bore-well sectors. With a new plant set-up in Hyderabad and an overall capacity of 41000 MTPA, it plans to expand aggressively in South India too.

## 4. Business Segments:




Skipper has mainly 3 segments of business:

- 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%

## 5. Competitor and Industry analysis:

As per our analysis we found Skipper comparable with two companies in the small cap segment: Kalpataru Power Trasmission Ltd and KEC International Limited. Both companies are listed on the BSE and NSE and operate in setting up and manufacturing power transmission towers, which is the larget income generator for Skipper too. Both companies rank higher with respect to market capitalisation when compared to Skipper but these were the only two listed companies in the same domain who's share prices and workings compare closely with that of Skipper's. KEC International has a market capitalisation of INR 3270 crores and a share price of INR 127.20; Kalpataru Power has a market capitalisation of INR 3920.92 crores and a share price of INR 255.50.

Skipper out performs Kapataru and KEC with respect to CARG sales, values considered since 2013. Skipper's CAGR sales is 18% while Kalpataru's is 10% and KEC's is 5%. KEC has perfomed better than Skipper with respect to CAGR Net Profits in the same years(2013-2016) considered but this is due to a sudden spike in profits that KEC experienced from 2013 to 2014 and now it has leveled. Skipper's profits are still better than Kalpataru which is at 13%. Skipper reports a CAGR Net Profits of 72% from 2013-2016.

When compared to the industry(both miscellaneous and engineering), Skipper has gone beyond the industry standards with respect to operation and earnings profits. It has performed exceptionally well in the last few years and is expected to continue doing so. The company is growing and operating at standards which is higher than that of the industry, as seen below:

| | Return on Networth | = | Leverage | * | Profitability | * | Efficiency |
|---|---|---|---|---|---|---|---|
| | Net Income/ Equity | | Assets/ Equity | | Net Income/ Sales | | Sales/ Assets |
| 2015 | 24.90% | | 311% | | 6.3% | | 126.9% |
| 2016 | 29.30% | | 350% | | 6.7% | | 123.5% |
| % Change | -4.40% | | -11% | | -0.4% | | 2.8% |

**Engineering Industry**: Skipper operates largely in this domain. A little over 80% of its sales turnover comes from T&D, Engineering and the Power sector. Hence, we have consideerd a combination of these industry figures for our analysis. Again information is collated from moneycontrol.

| | Return on Networth | = | Leverage | * | Profitability | * | Efficiency |
|---|---|---|---|---|---|---|---|
| | Net Income/Equity | | Assets/Equity | | Net Income/Sales | | Sales/Assets |
| 2016 | 0% | | 151% | | 0% | | 65.96% |

**Miscellaneous Industry**: Skipper is segmented into this industry on moneycontrol as it operates in Infrastructure, Pvc's and Engineering. Hence, we have compared it to the category of miscellaneous industries as well

| | Return on Networth | = | Leverage | * | Profitability | * | Efficiency |
|---|---|---|---|---|---|---|---|
| | Net Income/Equity | | Assets/Equity | | Net Income/Sales | | Sales/Assets |
| 2016 | 3.49% | | 175% | | 2.38% | | 83.77% |

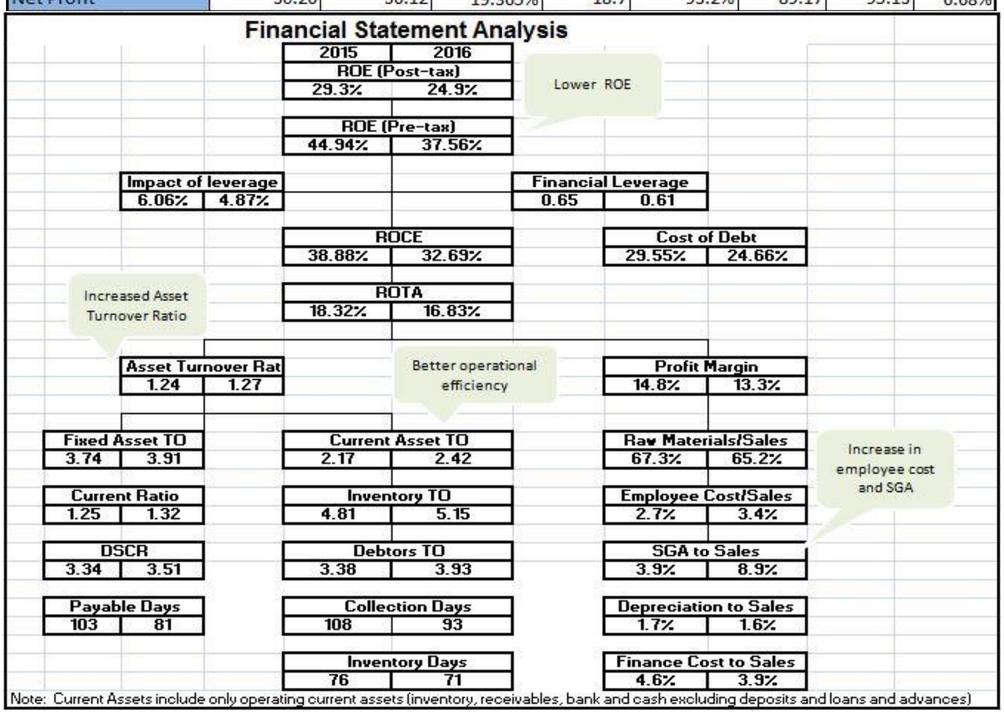
Overall Skipper is a good investment when compared to the industry. Especially at a time when India is looking at investing heavily into power generation projects and moving the public power sector out of a loss making slump. In addition the aim of the present governement is to enable the whole country to have equitable access to power. As such this requires heavy investment in transmission towers which is the key revenue generator for Skipper.

## 6. Financial analysis and projections:

Skipper's performance has been very strong for the past 5 yrs and continues to grow with sales of 14.73% , net profit grew by 6.68% with an ROE of 24.9%. Skipper's growth in 4th quarter has been extremely good as compared to the YoY growth. The ROE is lower than FY15, but the overall ROE for 3 yrs has been consistently good at 26.6%. Skipper had higher capital-work in progress for FY16 due to the Hyderabad plant being under construction. This along with increase significant increase in employee and administrative costs has impacted the overall profitability for FY16. But on the positive side, its assets turnover ratio and the operation efficiency has improved significantly in the past 5 yrs.

**FY16 QoQ and YoY comparison**

| | Mar-15 | Mar-16 | YoY | Dec-15 | QoQ | FY15 | FY16 | YoY |
|---|---|---|---|---|---|---|---|---|
| Sales | 499.94 | 529.75 | 5.963% | 371.77 | 42.5% | 1,312.80 | 1,506.22 | 14.73% |
| Expenses | 431.25 | 456.34 | 5.818% | 322.28 | 41.6% | 1,085.47 | 1,279.16 | 17.84% |
| Operating Profit | 68.69 | 73.41 | 6.871% | 49.49 | 48.3% | 227.33 | 227.06 | -0.12% |
| OPM | 13.74% | 13.86% | 0.873% | 13.31% | 4.1% | 17.3% | 15.1% | -12.99% |
| Other Income | 0.08 | 1.1 | 1275.000% | 0.86 | 27.9% | 1.66 | 5.17 | 211.45% |
| Depreciation | 6.34 | 6.32 | -0.315% | 6.13 | 3.1% | 70.43 | 64.82 | -7.97% |
| Interest | 15.36 | 15.54 | 1.172% | 15.31 | 1.5% | 21.99 | 24.12 | 9.69% |
| Profit before tax | 47.07 | 52.64 | 11.833% | 28.92 | 82.0% | 136.57 | 143.29 | 4.92% |
| Tax | 16.82 | 16.53 | -1.724% | 10.21 | 61.9% | 47.39 | 48.17 | 1.65% |
| Net Profit | 30.26 | 36.12 | 19.365% | 18.7 | 93.2% | 89.17 | 95.13 | 6.68% |



**DCF based future projections:**

With excellent past track record, good profit margins, healthy book order and growing industry, we expect Skipper's revenue to grow by 19% and 7.16% net profit in FY17. Skipper will be industry leader; its current book order stands at Rs 2400 Cr ensures turnover visibility for the next 2 yrs. It is also bidding aggressively for projects in power transmission and PVC segments. PVC segment has been growing 50% YoY since its launch 5 yrs ago and established itself as a trusted and leading brand increasing its chances of winning the bid orders.

| 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 |

We have used Gordon's growth model to determine the target price of the stock. 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 | 14.7 |
| Perpetual Rate (Inflation Rate) | 5.6 |
| | 20.3 |

## 7. Factors contributing to future growth:

- **Efficient operations:** Skipper has 3 of its manufacturing units in West Bengal, in close proximity with its raw materials supplier as opposed to its competitors like Kalpataru etc. This gives Skipper an edge over its competitors to bring down the raw materials cost. Logistics and transportation in India is not fully developed and many companies spend a lot of time and money in transportation.
- **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. The industry estimates installed capacity to move from 17 Lac MT to 33 Lac MT over FY15-19E providing huge growth opportunity for Skipper
- **Expansion plans to cater to future oppurtunities:**
  - 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.  This would increase its brand value and also push them into more advanced product segments.
- **Improved credit rating:** Skipper's external credit rating has been upgraded by CARE from A- to A+ on account of improved operational & financial performance along with better growth prospects. This reduces the cost of debt and brings down the expansion costs further
- **Diversified book order:** Skipper is moving from zonal to national level by moving into South Indian regions in PVC segment. It has also expanded its product range with CVPC plumbing products. It has alo increased its international reach by entering newer markets in Asia and Africa.

## 8. Risks:

- The future projections are based on expectations that some of the projects which are in the bidding stage would be awarded to Skipper.  Lower than the expected inflow of projects would affect their net sales and revenue.
- In 2016, the net profit % was lower than the previous year due to delayed project execution, this repeated in FY17-18 can negatively affect the company's performance.

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## 9. Conclusion:

With its proven track record in the past, positive macro environment , book-order to use upto 90% of its current capacity,  high chances of winning the bid orderr, future expansion plans in place to support the bid projects Skipper is all set to grow massively in the next 3-4 yrs and a good option for investors. We expect the stock prices to grow from Rs 149.55 to  INR 165.87 in the next six months.

## 10. Sources:


http://www.skipperlimited.com/investor-relations/pdf/Edelweiss-Q4FY16-Result.pdf

http://www.skipperlimited.com/investor-relations/pdf/sharekhan-Q4FY16-result-update-180516.pdf

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## Investment idea 2: Marico Ltd


**Current stock price:** Rs 281.95

**Target stock price:** Rs.346.61 (12 month projection)

**ISIN:** INE196A01026

**BSE security ID:** MARICO

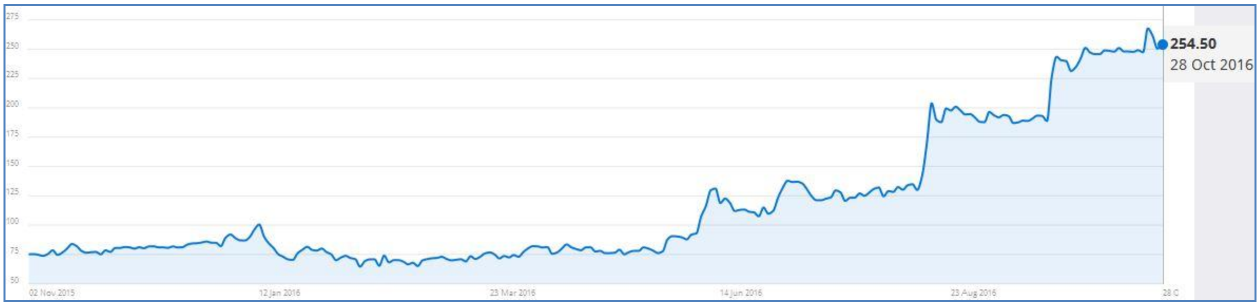
**BSE security code:** 531642

Marico Ltd is an industry leader in the consumer products and services space. Marico industries has diversified its portfolio from plain oils (Parachute and Saffola) to develop premium value added products. Led by positive outlook for the Indian urban economy, which comprises of 2/3rds of sales , as well improved operating efficiencies Marico is expected to achieve 8-9% volume growth.

The company has maintained a consistent Net Profit Margin over 5 years. Marico's CAGR of revenues (10.09%) has been higher than its peers (Hindustan Unilever, Godrej Consumer Products Ltd, Emami Ltd and Dabur India with average growth rate of 8.34%) It's from operating profit margin expansion is at 18.3%. Marico now enjoys 30% market share in value added hair oil space and is invested into tapping into the growth in food category sectors.

The company has a good return on equity (ROE) track record: 3 Years ROE 33.91 and has been maintaining a healthy dividend payout of 46.63%.In it's stock exchange filing dated 31 March 2016, Marico reported a promoter holding of 59.67 %. Large promoter holding indicates conviction and sincerity of the promoters. We believe that a greater than 35 % promoter holding offers safety to the retail investors.

## Investment idea 3: National Fittings Ltd




**Current stock price:** Rs. 254.50

**Target stock price:** Rs. 306.82 (12 month projection)

**ISIN:** INE643C01015

**BSE security ID:** NATFIT

**BSE security code:** 531289

National Fittings is an established player in the M.E market and is India's only manufacturer of grooved fittings. Middle Eastern region over the last 4-5 years has seen a construction boom, and with global events such as FIFA, Dubai Expo etc National Fittings will continue to grow in international markets. NF is mostly an export company but it also growing in the Indian market.

Operating efficiency: The operating cash flow from last 5 years is able to easily meet the working capital requirements. Hence, the company has been able to manage its sales, receivables and payables from internal cash flows. Sales growth has been sustained with increasing operating margins which shows sustained profitability of the firm’s business. The high ROCE of the company also shows efficient capital employment by the firm and rightly choosing its capital expenditures to generate profits.

Financial health: Interest/Operating profit and Interest/CFO - company has sufficient debt coverage which gives it room for aggressive sales, aggressive WC management and growth. D/E is 0.12 whereas promoter holding is close to 65%. So, promoters still have option to dilute equity if required without losing control. However, it is not required since CFO is generating enough cash to meet growth.

Historical growth: Sales growth rate 10 years - 24%; 5 years – 15% PAT growth rate 10 years - 46%; 5 years - 21% . PAT growth rate can be more than sales growth rate given that company doesn’t have significant interest expenses, no new Capex which would lead to depreciation. Hence, incremental sales will lead to higher operating leverage.

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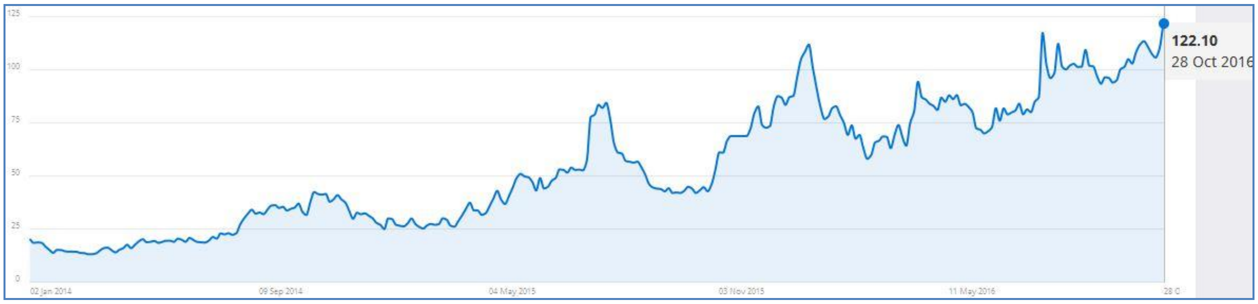
## Investment idea 4: Bluechip Tex Fuel Industries Ltd




**Current stock price:** Rs. 125.00

**Target stock price:** Rs. 150.71 (12 month projection)

**ISIN:** INE472D01017

**BSE security ID:** BLUECHIPT

**BSE security code:** 506981

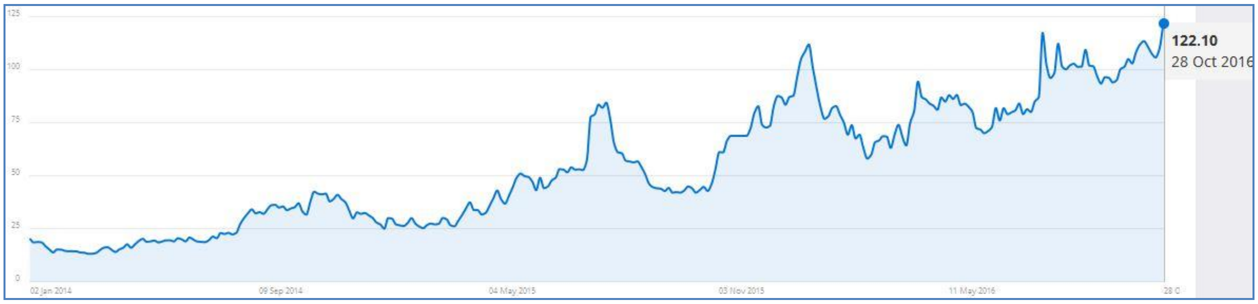
Bluechip Tex Industries Ltd is in the business of twisting the polyester texturized yarn. It has one manufacturing unit in Silvasa. Though the company has only 1 production unit, it capex is involved in installation of new machines at these locations, such as in 2015, 1 Draw Texturising Machine and 2 Air Texturised Machines were installed.

**Operating Efficiency:** For the past 5 years, it is showing exciting growth in terms of sales. From 12 Crore sales in 2011 to 138 Cr sales in 2016 at a 10-yr growth rate of around 63%. The company has shown an increase of WC by 8 Cr in the last 5 years. However, against that they have generated OCF of 15.5 Cr. The only concern we could find in the operating space is the OPM, which hovers around 3-6%.

**Financial Efficiency:** From financial standpoint, the company has a total debt of around 9 Cr, and has debt equity ratio of 1.02. ROCE has increased from 23-24% to 32% in the last year which means that the company is investing its money very judiciously. The ratios clearly suggest that the company has sufficient margin to raise debt for its projects and increase its financial leverage without increasing much risk.At a PE of 8.41, it is valued reasonably with a lot of growth potential in the stock.

**Historical Growth:** 10-yrs sales growth- 35.87%**;** 10-yrs PAT growth rate- 38.32%. Thus any incremental sales would lead to higher operating leverage without any extra debt requirement.

## Investment idea 5: Ajanta Pharma




**Current stock price:** Rs. 2047.15

**Target stock price:** Rs. 2471.49 (12 month projection)

**ISIN:** INE031B01049

**BSE security ID:** AJANTPHARM

**BSE security code:** 532331

Ajanta Pharma engages in the development, manufacture and marketing of generics drugs mainly in the areas of ophthalmology, dermatology, cardiovascular and pain management. The company's products are sold over 35 countries, with Asia & Africa as the major contributors to its branded generic business.

The global generic drugs market is expected to grow at CAGR of 10.53% during the period 2016-2020.In the international markets, Ajanta has registered 1,445 brands, and is in the process of registering another 1,609. Being one of the latest entrants in the regulated markets of USA, the company holds a tremendous growth potential with 11 final ANDA approvals, 1 tentative approval and another 14 awaiting approval with US FDA.

Over the last 5 years not only has the sales more than tripled (from INR 458 Crores in March 2011 to INR 1551 Crores in March 2016) but also, there has been consistent profit growth of 55.22% with the operating profit margin steadily expanding from 19.55 % in March 2011 to 33.24% in March 2016. The company has a good ROE track record of 46.02% over the last 3 years while ROCE in 2015 stood at an impressive 52 %.

Moreover, Ajanta's stock has risen to INR 2052.65 on 31st October 2016 from INR 1393.05 on 1st April 2016 indicating a 47.34% increase. The stock is currently trading very closely to its Exponential Moving Average (EMA) and having crossed the EMA for 50 days on 18th October 2016, we expect a significant upside in the coming months.