

## D-Link (India) Ltd

Industry	CMP	Recommendation	Add on dips to	Sequential Targets	Time Horizon
IT Networking Equipment	Rs. 121	Buy at CMP and add on declines	Rs. 105-108	Rs. 139-159.5	1-2 quarters

HDFC Scrip Code	DLINKIEQNR
BSE Code	533146
NSE Code	DLINKINDIA
Bloomberg	DLINK IN
CMP Feb 10 2017	Rs.121
Equity Capital (Rs cr)	7.1
Face Value (Rs)	2.0
Eq- Share O/S (crs)	3.6
Market Cap (Rs crs)	429.6
Book Value (Rs)	44.1
Avg. 52 Wk Volumes	64120
52 Week High	145.5
52 Week Low	75.25

D-Link India a part of D- Link Corporation Ltd, Taiwan is engaged in marketing and distribution of networking products in India and SAARC countries. It also offers products such as wired and wireless solutions, IP-based surveillance cameras & structured cabling solutions. D-Link Holding Mauritius Inc which is 100% subsidiary of D-Link Corporation, Taiwan holds 51.02% shareholding in D-Link (India) Limited..

### Investment Rationale:

- Extensive product portfolio with pan India presence.
- Government initiatives like Digital India, Smart City and Cashless India could derive technology adoption and more demand
- Early entry into networking domain and new launches could provide large opportunity,
- Subsidiary TeamF1 Networks provides R&D capabilities –derisking the business and increasing blended margins,
- Good credentials of Parent Company,
- Attractive Financial Profile and consistent dividend Payout.

### Concerns:

- Competitive intensity,
- Changes in technology or technologies obsolescence, Currency Risk,
- Related Party Transaction.

### View and Valuation:

India has recently witnessed growing demand for dual band wi-fi, smart routers and 3G/4G connectivity. Rise in enterprise spending, increasing penetration of broadband and roll out of 3G/4G networks would further fuel the growth. Apart from this, programs of Indian government – e-governance; surveillance, smart cities mission, 'Digital India' has already opened up avenues for strengthening the broadband infrastructure and creating identity solutions, payment systems, web or mobile based delivery structures, etc. Being a leading company in these domains, D-Link could benefit immensely going forward.

Its subsidiary TeamF1 Networks continues to post improved financials and this could help de-risk its business and improved blended margins. We remain optimistic on the company's fundamental performance and believe that the company has a vital role in the government's vision of pan-India internet connectivity owing to its wide product portfolio. The MNC tag and decent financial profile are added benefits. D-Link is witnessing an inflection point in the next wave of the internet. The highest quarterly EBITDA margin of 7.1% earned in Q3FY17 is probably a signal of this.

We feel investors could buy the stock at the CMP and add on dips to Rs. 105-108 band (~10x Sept FY18E EPS) for sequential targets of Rs 139 (13.0x Sept FY18E EPS) and Rs 159.5 (15.0x Sept FY18E EPS). At the CMP of Rs 121 the stock trades at 11.4x Sept FY18E EPS.

Shareholding Pattern % (Dec 31, 2016)	
Promoters	51.0
Institutions	5.3
Non Institutions	43.7
Total	100.0

### Fundamental Research Analyst

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**Financial Summary-**

Particulars (Rs cr)	Standalone					Consolidated				
	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	186.6927	169.95	9.9%	201.79	-7.5%	640.8	721.3	775.4	844.4	931.4
EBITDA	13.2	10.8	22.2%	10.6	24.4%	33.8	38.1	41.1	50.7	61.5
APAT	21.9	24.4	2773.2%	34.0	4142.2%	21.9	24.4	27.7	34.0	41.4
Diluted EPS (Rs)	6.2	6.9	781.1%	9.6	1166.7%	6.2	6.9	7.8	9.6	11.7
P/E (x)						19.7	17.6	15.5	12.6	10.4
RoE (%)						16.2%	15.6%	17.7%	21.8%	26.5%

(Source: Company, HDFC sec)

**Company Profile:**

D-Link India is a part of D-Link Corporation Ltd, and company is engaged in marketing and distribution of networking products in India and SAARC countries. It also offers products such as wired and wireless solutions, IP-based surveillance cameras & structured cabling solutions. Its product /solutions portfolio consists of end to end networking products, which includes 3G, broadband, IP surveillance, network security, network storage, switching, routing and wireless LAN. D-Link (India) is a 51.02% subsidiary of D-Link Holding Mauritius Inc (100% subsidiary of D-Link Corporation).

D-Link acquired TeamF1 Networks in 2014, a provider of embedded software engineering with expertise in networking and security. It employed about 140 staffers at its development centre in Hyderabad in 2014 and had plans to add staff strength in that company. While Taiwan will continue to be a significant R&D centre for the D-Link group, the vision was to make India the R&D hub for not only markets in Asia, but also Russia and Europe. Indigenisation of networking switches and routers can be done out of its facilities here for any market, be it Russia or South-East Asia. TeamF1 is engaged in the business of embedded software engineering and has R&D capabilities with expertise in Networking and Security and is expected to bring in positive value to D-Link in terms of enhancing its technological as well as its research and development capabilities with access to in house customization and development of new localized products. TeamF1's financial statements show positive signs of growth in terms of its revenues. It registered gross revenue of Rs. 205.87 million in FY16 as compared to Rs. 173.01 million in the previous fiscal year, thereby resulting in an increase of 19%. The profit before tax stood at Rs. 43.06 million as compared to Rs. 4.54 million in the previous fiscal year.

D-Link's primary focus has been on devising solutions for small to medium enterprises by targeting three strategic areas: unified wireless solutions, smart switches and integrated one-stop surveillance solutions (IP surveillance cameras, switches, software, storage and structured cabling). With nationwide reach, Company has wide product portfolio and best service in the industry. The Company is firmly committed towards delivering high quality, efficiency and reliability to Networking products, solutions and services.

On the manufacturing side, D-Link is also toying with the idea of getting its products manufactured in India. Already, components of its structured cabling products are being sourced locally. During FY16, the Company has undertaken the manufacturing of set-top boxes and its allied products for Indian market. The company prefers to work with entities that design, test, manufacture, distribute, and provide return/repair services for electronic components and assemblies. It would

prefer to deal with contract manufacturers and electronic manufacturing services companies instead of doing it itself. It's a model that's worked well in China. The proportion of imports has been falling (though gradually) as is evident from the table below:

Particulars, Rs in Cr	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Net sales (Rs.Cr.)	132.5	132.8	128.1	223.1	353.7	487.6	625.3	700.8
Import of Raw materials/Finished Goods (Rs.Cr.)	79.4	80.4	86.3	157.4	196.3	275.5	354.2	379.2
<b>Import of Raw materials/Finished Goods as a % of sales</b>	<b>59.9%</b>	<b>60.5%</b>	<b>67.4%</b>	<b>70.6%</b>	<b>55.5%</b>	<b>56.5%</b>	<b>56.6%</b>	<b>54.1%</b>

(Source: Company, HDFC sec)

For D-Link, strong brand recall, a pole market position as a quality end-to-end player, and an extensive distribution and support infrastructure, have allowed the company to exploit India's growth environment. Ranked No. 1 in both the switching and WLAN segments, D-Link owned a lion share of those markets with switch port shipments at 45%, wireless unit shipments at 52%, and wireless revenue at 30%. In fact, D-Link enjoyed growth in most business segments, particularly in consumer wireless with ISPs and through major telecom contract requirements for ADSL broadband products. By combining Active and Structured cabling products, D-Link is able to uniquely offer Enterprise & SMB clients a complete networking range.

#### **D- Link Corporation:**

D – Link Corporation is Taiwan based company, listed on the Taiwan Stock Exchange. Company is worldwide leading designer, developer and manufacture of networking and connectivity products. D-Link Corporation has more than 34 subsidiaries worldwide in various jurisdictions including the United States of America, the United Kingdom and Singapore. D-Link Corporation is a global leader in designing, manufacturing and marketing of advanced networking, broadband, digital, voice and data communications solutions.

Company has global presence with more than 90 offices in North America, Asia and Europe. D-Link maintains strategic operations in Canada, the United Kingdom, Germany, France, Spain, Italy, Greece, Turkey, Sweden, Norway, the Netherlands, Denmark, Finland, Russia, Israel, the Middle East, South Africa, Chile, Australia, Japan, Vietnam, Singapore, China, India and other countries on five continents. Today, D- Link is an international household brand with a reputation of hi8gh quality, integrated and all in one networking services.

D-Link's development of global distribution channels in more than 100 countries has resulted in double-digit growth year over year for 21 years. D-Link surpassed the \$1 billion revenue milestone in 2005, driven by record sales in every geographic region of the world. It has Worldwide #1 marketshare in SOHO and SMB connectivity, Worldwide #1 marketshare in Unmanaged Gigabit ports shipped and Worldwide #1 marketshare in Unmanaged 10/100 ports shipped.

**Business Overview:****Offerings:****Network Switching:**

D-Link offers the complete range of switching solutions including Chassis, L3/L2 Managed, Web-Smart and Un-Managed switches. The major drivers were bandwidth intensive applications like streaming video, VoIP and high-end multimedia and increased demand for gigabit switches from large enterprises and service providers. Verticals like government, retail, manufacturing, services, financial, education, healthcare and telecom contributed to the revenues.

From enabling physical security to managing an end-to-end wireless infrastructure or protecting and storing sensitive data, D-Link Network Switches provide the basis for secure and reliable business networks. It includes from the core of network to its edge, D-Link's comprehensive sections of switches includes 10Gigabit, Gigabit, Fast Ethernet and PoE (Power over Ethernet) that range from entry level to full managed, more sophisticated solutions.

**Surveillance solutions:**

D-Link offers a range of IP-based Surveillance Cameras with Wired and Wireless options; these can be integrated with NVR (Network Video Recorder) solutions for archiving. The cameras span the spectrum of possibilities, including Standalone Network Cameras, Pan Tilt Zoom Cameras, Dome Cameras (Day & Night), Box Cameras and Outdoor Cameras.

**Wireless:**

D-Link enjoys leadership position in unit terms in WLAN (Wireless Local Area Network) category with a 49% market share as on 31<sup>st</sup> March 2016. Its product portfolio includes Business Class Access Points, Unified Switching Solutions, and Long Distance Wireless etc. Further in consumer space, the boom in smartphone segment enabled to position its complementing product line like net-generation 11AC standard products & 3G effectively. All D-Link Wireless AC routers support dual-band wireless, operating on both the 2.4 GHz and the 5GHz wireless bands. D-Link offers unified wireless networking solutions that enable small and medium-sized businesses to create highly mobile, highly productive work environments at a low total cost burden.

**Passive Products:**

D-Link's wide product range combined with premium quality & excellent brand in cabling solutions. Company is currently focusing on Copper & Fiber cabling solutions. D-Link has an entire range of high end copper and fiber range which can be positioned in the high end applications like data centers and server farms etc. D-Link has witnessed remarkable growth in the Structured Cabling product category over the years with strong demand from large enterprises, SMEs/SMBs.

**Introduction of IOT Range:** D-Link had introduced new product category under IoT with range of Smart home solutions and firm believes that homes will move from being interconnected to information- and smart-enabled - an integrated services environment.

**Distribution Network:**

Distribution Network:	FY16
Branch offices	18
Business Distributors (Ind+SAARC)	90
Dealers	500
Resellers	5000

(Source: Company, HDFC sec)

**Holding, subsidiary and Associate Company:**

Company	Type	% of Holding	Revenue (Cr)	PAT(Cr)
D-Link Holding Mauritius Inc	Holding	51.02	-	-
Team F1Network Pvt Ltd	Subsidiary	99.99	20.59	2.88

(Source: Company, HDFC sec)

**Some of the awards the company received during FY16 were:**

- Top Achiever Companies of 2015 - NCN & Mobility Magazine, May 2016
- Best Networking Company of 2015 - NCN & Mobility Magazine, May 2016
- Best Customer Service Brand of 2015 - NCN & Mobility Magazine, May 2016
- Best Structured Cabling Brand 2015 - NCN & Mobility Magazine, May 2016
- Best Networking Company - VAR India, November 2015
- Best Structured Cabling Company - VAR India, November 2015

**Industry Overview:**

With the multiple folds growth in internet subscribers, growth in the mid-market segment, enhanced IT infrastructure and growing market have accelerated the networking market in India, and Indian IT networking industry has witnessed significant changes over the last few years.

**Industry Outlook:**

- The networking industry will continue to grow at a robust pace on the back of higher enterprise spending, a further roll out of 3G/4G networks and increasing broadband penetration.
- The growing IT spending and increasing government initiatives would fuel growth of the India enterprise networking market over the coming quarters. The industry players are aggressively expanding and renewing their product portfolio to adapt to the technological changes and cater to the growing consumer needs. The Indian market has witnessed an increasing demand for dual band Wi-Fi, sleek design, 3G/4G connectivity and smart routers.
- The Indian networking market continues to post a healthy year-on-year growth. According to International Data Corporation (IDC), the Ethernet Switch market witnessed a year-on-year growth of 6.8 percent (in vendor revenue) and stood at USD 108.2 Million. The Router market witnessed a significant year-on-year growth of 32 percent and stood at USD 72.4 Million in terms of vendor revenue.

- The telecom 4G rollouts and government projects comprising of various e-governance, surveillance and digital initiatives are expected to contribute to the growth in the coming years.
- The Indian LAN market is expected to grow in single digit in terms of Compound Annual Growth Rate (CAGR) for 2015-2020. Telecom and Banking would remain as the key contributors but incremental growth is expected from Education, Government, e-Commerce, Healthcare and Hospitality verticals in the near future.
- The WLAN market is also expected to grow in single digit in terms of compound annual growth rate (CAGR) for 2015-2020. Uptake from SMB and Wi-Fi hotspot demand from various cities would drive incremental growth in the near future.

#### Investment Rationale:

##### **Extensive product portfolio with pan India presence:**

D-Link has an extensive product portfolio that includes Switching, Wireless, Broadband, Storage, IP Surveillance, Cloud-based network management and Structured Cabling. D-Link's end-to-end & diversified networking capabilities bring endless opportunities for its channel partners/ re-sellers to expand their horizon & reach out to multiple product segments. This has resulted in creating newer business avenues for partners that in turn contributes to their business growth.

In the wireless segment, D-Link ranked second with a 49% market share in JFM 2016. In the Switch domain, D-Link retained its numero uno position with 42% of the market while in the emerging domain of IP surveillance. D-Link's cloud based applications are already dominating the market, and now most of D-Link's latest products are based on the IoT (Internet of Things) – the future of technology.

With Changing market dynamics and technology progression in the industry, D-Link has evolved as leading enterprise with an extensive portfolio of award winning networking and home automation products and services. After three decades of successful innovation and growth, company has become one of the world's leading technology's products providers led by life style brands, and product portfolio according to emerging demand.

D-Link is focused to provide world-class customer services and has worked towards enhancing its existing support infrastructure PAN India. As on 31<sup>st</sup> March 2016, there are 11 D-Link Direct Service Centres, 49 Partner Service centre and 156 Courier Collection points across the country. With this now D-Link India has coverage for 128 Locations with 216 Service Points for Customer Support and thereby ensures complete customer peace of mind. Further customers can also interact with the technical experts present at the centres and have hands-on product experience with live demos.

D-Link has its strategies in place with focus on different business verticals like Telcos, ISPs, Government, Education etc. Further focus on Smart Home segment with IoT, and latest consumer wireless range is likely to boost overall performance.

##### **Government initiatives like Digital India, Smart City and Cashless India could derive technology adoption and more demand:**

Government's Digital India & Smart city initiatives are driving technology adoption drive. The government's initiatives to improve the financial inclusion reduce the digital divide and build smart cities, are expected to contribute largely to the networking market in the near future.

The government's current Digital India initiative is an ambitious project that is set to fast track the growth momentum. Under the Digital India program, the Government has set an ambitious plan to build 100 smart cities across the country. Further Rural Broadband for All, Universal Mobile Access, WiFi in Varsityes and Public WiFi Hotspots are the core agendas of this digitization program. As a result, Internet connectivity will be crucial, and therefore offers huge business opportunities for a brand like D-Link. That, coupled with India's position as one of the world's largest Internet user bases, has created an exploding demand for mobile, 3G/4G, cloud and networking products.

During the month of June 2016, Directorate General Supplies and Disposals (DGS&D), a central purchase and quality assurance organization of Government of India has awarded a rate contract agreement for the purchase of D-Link products and services.

**Early entry into networking domain and new launches could provide large opportunity:**

- D-Link is the first networking company to invest in a dedicated Cloud platform team that eventually made way for Cloud Routers, Cloud Cameras, the mydlink app and the mydlink Home app for Connected Home.
- Company was the first to enter the 11AC market.
- D-Link was the first networking company to deliver a Wi-Fi baby camera.
- Company created the first battery-powered mobile 11AC router.
- In the current networking scenario, D-Link has already taken the market by storm with its range of Connect Home Series that is based on IoT.

D-Link launched a series of products to make Smart Home a reality,

- Smart Plug - Control your devices and appliances from anywhere.
- Audio Extender - Stream all your music from your device to any connected speaker.
- Wireless Sensors - Always know when something's moving at home.
- Home Monitors - The simplest way to keep an eye on your home, kids, pets, or business.

Rich technological achievements and collaboration could support to D-Link to expand its market share across the products and geographies going forward.

**More focused on cost effective solutions and customer support infrastructures:**

D-Link provides high-performance and cost-effective solutions to deliver better connectivity, security, efficiency, and cost savings for both home and office. Company has made huge investment in developing its customer support infrastructure. D-Link has reached out to customers in more than 150 cities through D-Link Service Centres (DSC) and Partner Courier Pickup (PCP). Further D-Link offers 'Service at your door-step' for Broadband, Wireless and 3G Lifestyle products with D-Link Direct Service (DDS) which is also available on WhatsApp. Its unique service support model has enabled it to sustain its customer base & also retain its leadership position in networking technology domain. D-Link continues to venture into newer areas of the enterprise market. It recently partnered with MOXA for peddling network solution to large business enterprises. Also it collaborated with GajShield to provide high end security solutions to enterprises.

**TeamF1 Networks continues to provide R&D capabilities:**

The company acquired TeamF1 Networks in 2014, which was in the business of providing services in relation to the Network Security Software, test new applications/ enhancements and provide maintenance support for existing applications. TeamF1's financials show positive signs of growth in terms of revenue which have grown by 19% YoY to Rs 20.6 crore in FY16 and has a strong margin profile. The profit before tax from the segment also grew by 10x to Rs 4.3 crore in FY16. Maintenance support and R&D support by TeamF1 Networks to its parent company D-Link India could help to boost D-Link Margin going forward.

**Good credentials of Parent Company:**

D-Link is the global leader in total products shipped for consumer networking connectivity according to reports published by the In-Stat Research Group. D-Link is the worldwide leader and award winning designer, developer, and planner of networking, broadband, digital electronics, voice and data communications solutions for the digital home, Small Office/Home Office (SOHO), Small to Medium Business (SMB), and Workgroup to Enterprise environments. With in-depth worldwide market channel coverage over 100 countries and full-range product offering of Ethernet adapters, switches and routers for professional and home users, D-Link is a dominant market participant and price/performance leader in the networking and communications market.

D-Link (India) continues to rely on wares imported from D-Link Corporation and its subsidiaries / associates. To maintain its technological edge D-Link Corporation continues to rack up R&D spending. As a result, it has been awarded copyrights and patents on several technological platforms including application specific integrated circuit (asic) computer chips, hardware technology designs, software applications and other intellectual properties. D-Link Corporation is a global leader in designing, manufacturing and marketing of advanced networking, broadband, digital, voice and data communications solutions. D-Link India has been relying on parent company in term of R&D and technology support. No royalty is being paid to the parent though at time small amounts are paid by way of technical service fees.

With strong parental support from D-Link Taiwan, in terms of a pipeline of the latest and innovative products, D-Link India is ideally placed to take advantage of the impending boom in networking and internet products. Its parent has plans to capitalize on its market dominance in countries such as India.

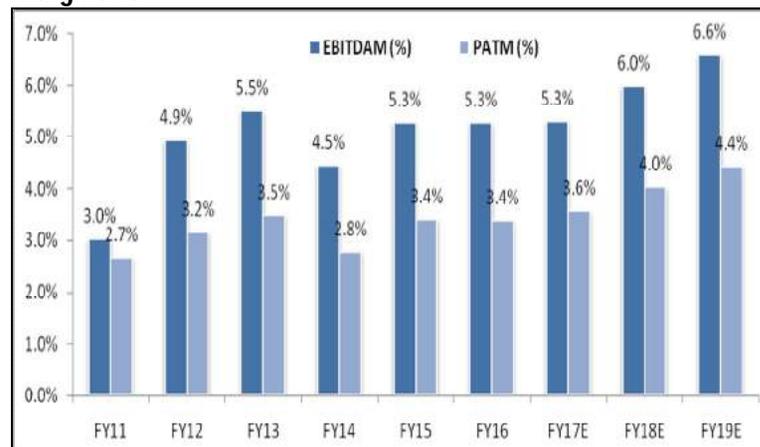
**Attractive Financial Profile and consistent Dividend Payout:**

D-Link has been fairly successful in registering decent growth over a period of time. It's consolidated sales CAGR since FY11 to FY16 stands at an impressive 41% (to Rs 721 crore), while the profit after tax (PAT) during the same period has grown by 48% (to Rs 24.3 crore). D-Link reported 12.6% revenue and 11.5% PAT growth in FY16. Total debtors as of March 31, 2016 stood at Rs 172 crore (23.8% of sales) against Rs 142 crore (22% of sales) of March 31, 2015. Debtors Sales Outstanding (DSO) increased from 81 days to 87 days in FY16 and company has maintained inventory days of less than two months.

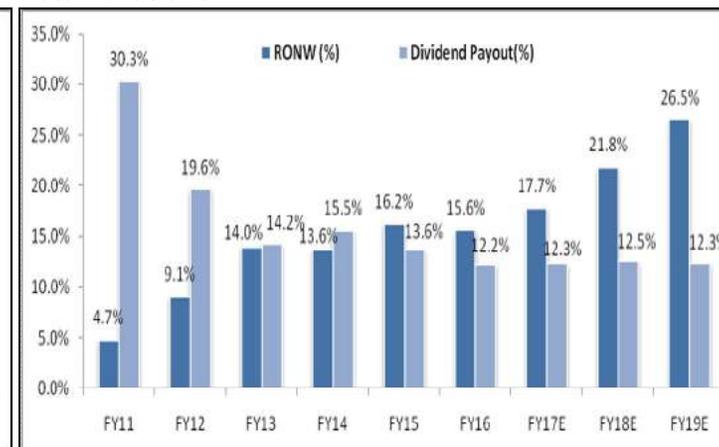
Company is engaged in dealing and marketing of IT products in India and company enjoys better margins than its peers. Despite its low Net profit margin, its return ratios are healthy due to high asset turnover ratio. Apart from this, company is focused to channelize its distribution network to control its cost.

We expect ~9% revenue growth in FY18E and ~10% in FY19E, and also expect 5.5%-6.5% EBITDA margin in FY17E to FY 19E. D-Link has good track record to pay dividend to its shareholders. We expect Company could pay dividend Rs 0.80 and Rs 1 per share in FY17E and FY18E respectively.

**Margins-%**



**Returns ratio-%**



(Source: Company, HDFC sec)

**Risk and Concerns:**

**Competitive intensity:**

Networking products market is indeed highly competitive and unorganized in India. Chinese vendors and local manufacturers are providing products in lesser price to attract the customers and they are trying to expand its existence in the market because of lower price. The competition can lead to pressure on pricing, vendor consolidation and hence can impact company’s growth and profitability. New competitors are emerging from adjacent markets and distant geographies.

However D-Link’s focus on high-margin, valued-added, cutting-edge solutions continues to differentiate D-Link from low-cost, low quality competitors, who are quickly losing relevance in the rapidly evolving consumer and business spaces. While the market is indeed highly competitive, it is D-Link’s unique positing & brand reliability that has helped it retain the No. 1 spot in wireless domain.

**Changes in technology or technologies obsolescence:**

Changes in delivery models and consumer spending patterns could be a threat to the growth in traditional IT spends and technology obsolescence. However, Company continuously reviews and upgrades its technology, resources and processes lest it faces technology obsolescence.

**Currency Risk:**

D-Link’s majority of products are imported from D-Link Corporation and its subsidiaries. In FY16, the rupee has depreciated against most major currencies. Therefore, volatility in currency exchange movements can have a negative impact on the

Company's financial performance. D-Link has substantial exposure to foreign exchange related risks on account of imports of finished traded products from its parent group companies.

**Related Party Transaction:**

D-Link imports almost all products from its parent company D-Link Corporation Ltd and its subsidiaries. Apart from this, other transactions are entered into with the holding company, subsidiary and fellow subsidiary. Related party transaction could create doubts about whether the Indian Subsidiary's interests are protected and to what extent.

**Q3FY17 results review:**

D-Link reported better numbers than expectations in Q3FY17, sales grew by 9.8% (YoY) to Rs 186.7cr despite demonetisation impact during the quarter. EBITDA was up by 22.2% (YoY) to Rs 13.2 cr, EBITDA margin ramped up by 80bps (YoY) to 7.1% during the quarter. PAT grew by 31.1% (YoY) to Rs 9.1 cr and PAT margin ramped up by 80bps (YoY) to 4.1% in Q3FY17. For 9MFY17, Company reported 4.8% (YoY) revenue growth to Rs 540.7 cr, 4.5% (YoY) EBITDA growth to Rs 25.5cr and 13.2% (YoY) PAT growth to Rs 17.2 cr.

**View and Valuation:**

India has recently witnessed growing demand for dual band wi-fi, smart routers and 3G/4G connectivity. Rise in enterprise spending, increasing penetration of broadband and roll out of 3G/4G networks would further fuel the growth. Apart from this, programs of Indian government – e-governance; surveillance, smart cities mission, 'Digital India' has already opened up avenues for strengthening the broadband infrastructure and creating identity solutions, payment systems, web or mobile based delivery structures, etc. Being a leading company in these domains, D-Link could benefit immensely going forward.

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**Quarterly Financials – Standalone**

Particulars, Rs in Cr	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	9MFY17	9MFY16	YoY (%)
Net Sales	186.7	170.0	9.9%	201.8	-7.5%	540.7	516.2	4.8%
Other operating Income	0.4	0.3	69.2%	0.3	29.4%	1.2	0.7	77.3%
Total Income from Operation	187.1	170.2	9.9%	202.1	-7.4%	541.9	516.8	4.8%
Raw Material Consumed	2.6	0.0	-	1.3	104.6%	5.6	0.0	-
Stock Adjustment	-14.2	-6.5	118.2%	34.6	-141.2%	9.3	-16.0	-158.2%
Purchase of Finished Goods	165.4	148.1	11.7%	135.6	22.0%	439.4	449.7	-2.3%
Employee Expenses	8.2	7.4	11.5%	8.4	-1.7%	22.8	23.6	-3.2%

Other Expenses	11.9	10.5	13.3%	11.8	1.2%	39.2	35.1	12.0%
Total Expenses	174.0	159.4	9.1%	191.5	-9.2%	516.4	492.4	4.9%
EBITDA	13.2	10.8	22.2%	10.6	24.4%	25.5	24.4	4.5%
Depreciation	0.3	0.4	-22.2%	0.3	-0.7%	0.9	1.2	-22.8%
EBIT	12.9	10.4	23.8%	10.3	25.1%	24.6	23.3	5.9%
Other Income	1.2	0.2	403.4%	0.5	136.3%	1.8	0.6	228.2%
Interest	0.1	0.0	554.5%	0.1	45.4%	0.4	0.2	90.5%
Profit Before Tax	13.9	10.6	31.0%	10.7	30.0%	26.1	23.6	10.4%
Tax Paid	4.8	3.7	30.8%	3.6	34.9%	8.9	8.4	5.4%
Reported Profit After Tax	9.1	6.9	31.1%	7.1	27.6%	17.2	15.2	13.2%
EPS (Adj) (Unit Curr.)	2.6	2.0	30.6%	2.0	0.0%	4.8	4.3	13.0%

(Source: Company, HDFC sec)

## Financials – Consolidated

### Income Statement

Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
Net Revenue	640.8	721.3	775.4	844.4	931.4
Cost of raw material cons	0.0	0.8	8.5	8.0	10.7
Purchases of traded goods	525.7	603.7	610.3	681.9	746.5
Changes in inventories	-14.9	-17.9	11.6	-8.4	-9.3
Employee benefits expense	41.8	43.4	45.8	49.0	53.1
Other expenses	54.5	53.3	58.2	63.3	68.9
Total Expenses	607.0	683.3	734.3	793.8	869.9
EBITDA	33.8	38.1	41.1	50.7	61.5
Depreciation and amort- exp	1.8	1.7	1.3	1.2	1.2
EBIT	32.0	36.4	39.8	49.4	60.3
Finance cost	0.5	0.4	0.5	0.4	0.5
Other income	1.5	1.5	2.7	2.1	2.2
Earning before Tax	33.1	37.5	42.0	51.2	62.1
Tax	11.2	13.1	14.3	17.1	20.6
Reported PAT	21.9	24.4	27.7	34.0	41.4
Adjusted PAT	21.9	24.4	27.7	34.0	41.4
Earnings per share	6.2	6.9	7.8	9.6	11.7

### Cash Flow

Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
EBT	33.1	37.5	42.0	51.2	62.1
Depreciation and Amort-	1.8	1.7	1.3	1.2	1.2
Interest /Dividend paid	0.5	0.4	0.5	0.4	0.5
Other Adjustment	0.6	0.9	-3.8	-7.0	-7.8
(Inc)/Dec in working Capital	-23.4	-6.7	-1.1	1.7	-0.2
Tax Paid	-10.7	-14.7	-14.3	-17.1	-20.6
CF from Operating Activities	1.9	19.1	24.6	30.4	35.1
Capital expenditure	-1.7	-1.1	-3.0	-4.0	-4.0
Proceeds from sale of f.a	0.0	0.1	0.1	0.2	0.2
(Purchase)/Sale of Invest-	0.1	-4.3	-0.6	-0.5	-0.5
Others	0.6	0.2	-20.0	-20.0	-23.0
CF from Investing Activities	-1.0	-5.2	-23.5	-24.3	-27.4
Inc/(Dec) in Debt	-1.2	-2.3	0.6	-0.2	0.0
Dividend and Interest Paid	-2.1	-3.3	-3.9	-4.6	-5.6
CF from Financing Activities	-3.3	-5.6	-3.3	-4.9	-5.6
Net Cash Flow	-2.4	8.3	-2.2	1.2	2.1
Opening Balance	3.2	0.8	9.1	7.0	8.1
Closing Balance	0.8	9.1	7.0	8.1	10.2

(Source: Company, HDFC sec)

**Balance Sheet**

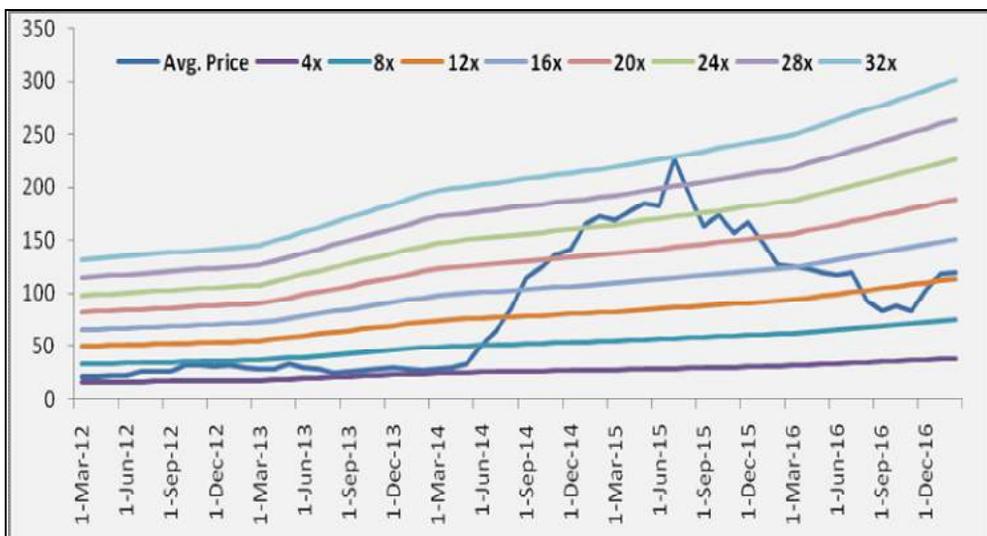
Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
<b>I. EQUITY AND LIABILITIES</b>					
Share capital	7.1	7.1	7.1	7.1	7.1
Reserves and surplus	127.9	149.3	173.6	203.4	239.7
<b>Shareholders' funds</b>	<b>135.0</b>	<b>156.4</b>	<b>156.4</b>	<b>156.4</b>	<b>156.4</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.0	0.1	0.1	0.1	0.1
Long-term provisions	1.8	2.1	2.0	1.8	2.0
<b>Non-current liabilities</b>	<b>1.8</b>	<b>2.1</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>
Short-term borrowings	2.3	0.0	0.6	0.4	0.4
Trade payables	115.1	164.4	159.3	171.2	186.3
Other current liabilities	3.4	5.1	5.6	5.2	5.5
Short-term provisions	5.5	4.8	5.3	5.6	6.7
<b>Current Liabilities</b>	<b>126.3</b>	<b>174.4</b>	<b>170.9</b>	<b>182.3</b>	<b>198.8</b>
<b>Total</b>	<b>263.1</b>	<b>332.9</b>	<b>329.3</b>	<b>340.6</b>	<b>357.2</b>
<b>II. ASSETS</b>					
<b>Fixed assets</b>	<b>35.2</b>	<b>34.6</b>	<b>36.2</b>	<b>36.0</b>	<b>34.8</b>
Deferred tax Asset (net)	2.1	3.8	3.6	3.8	3.4
Long-term loans and adv	3.1	2.9	3.1	3.3	3.4
<b>Non-current assets</b>	<b>40.4</b>	<b>41.3</b>	<b>42.9</b>	<b>43.0</b>	<b>41.6</b>
Current Investments	0.0	5.0	5.5	5.8	6.2
Inventories	78.1	99.7	93.5	97.2	102.1
Trade receivables	142.0	171.7	174.2	180.5	191.4
Cash and cash equivalents	0.9	9.2	7.0	8.1	10.2
Short-term loans and adv	1.7	5.5	5.8	5.5	5.2
Other current assets	0.0	0.4	0.4	0.5	0.5
<b>Current assets</b>	<b>222.7</b>	<b>291.6</b>	<b>286.4</b>	<b>297.5</b>	<b>315.6</b>
<b>Total</b>	<b>263.1</b>	<b>332.9</b>	<b>329.3</b>	<b>340.6</b>	<b>357.2</b>

**Key Ratios**

Particulars	FY15	FY16	FY17E	FY18E	FY19E
No of Equity Shares-cr	3.6	3.6	3.6	3.6	3.6
Enterprise Value-cr	431.0	420.4	423.3	421.9	419.7
EPS	6.2	6.9	7.8	9.6	11.7
Cash EPS (PAT + Dep)	6.7	7.3	8.2	9.9	12.0
Book Value Per Share(Rs.)	38.0	44.0	44.0	44.0	44.0
PE(x)	19.7	17.6	15.5	12.6	10.4
P/BV (x)	3.2	2.7	2.7	2.7	2.7
Mcap/Sales(x)	0.7	0.6	0.6	0.5	0.5
EV/EBITDA	12.7	11.0	10.3	8.3	6.8
EBITDAM (%)	5.3%	5.3%	5.3%	6.0%	6.6%
EBITM (%)	5.0%	5.0%	5.1%	5.9%	6.5%
PATM (%)	3.4%	3.4%	3.6%	4.0%	4.4%
ROCE (%)	24.5%	24.2%	27.1%	32.9%	39.9%
RONW (%)	16.2%	15.6%	17.7%	21.8%	26.5%
Dividend Payout (%)	13.6%	12.2%	12.3%	12.5%	12.3%
Current Ratio	1.8	1.7	1.7	1.6	1.6
Debt-Equity	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)

**One Year forward P/E**



**One Year Price Chart**



(Source: Company, HDFC sec)

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