

## The curious case of singer India



- Singer India, a debt free 330cr Mcap company, is a distributor and retailer of Singer branded Sewing machines and home appliances like food processors, toasters, water heaters, air coolers and other kitchen appliances like induction stoves, kettles, targeting the affordable segment only. Its

distributed through 1000+ dealers and 50+ exclusive stores.

- Brand singer : 150+ year old . Despite its lukewarm performance over the decades, brand singer still has some mind share among the consumers at least from anecdotal evidence. Probably from the quality associated with it's old sewing machines.



- Singer and USHA form the organized sewing industry market in India. They are gaining market shares from unorganized players. The annual growth rate of sewing machine demand is 3-5%. GST is a positive development for singer.

- Singer India went into BIFR in 2002-2003 due to high debt as a result of it's failed home appliance venture.

- After exiting BIFR in 2013, they have relaunched their home appliance business. This time around they have corrected their previous mistakes, they have grown with internal cash accruals from sewing machine business. Lower SKUs, pushing through existing distributors than adding

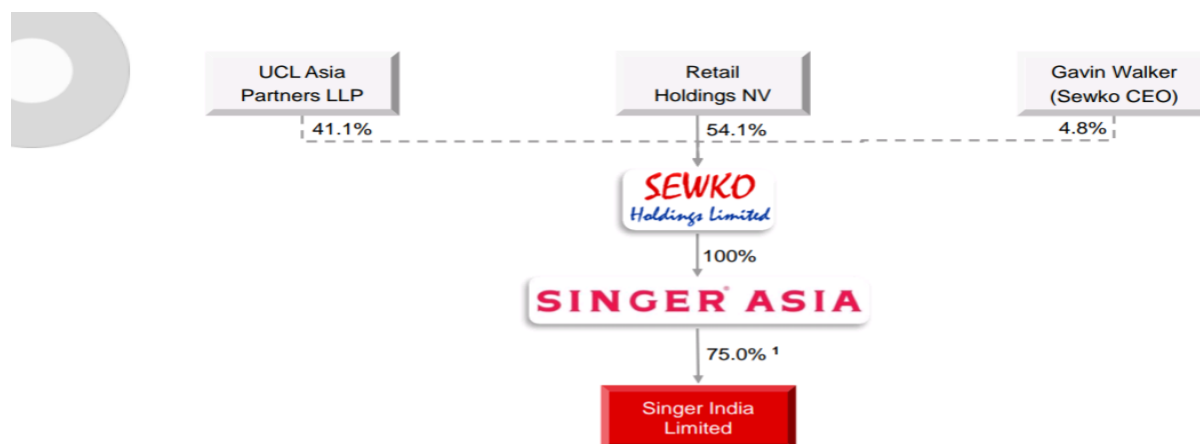
up new ones and ecommerce sites has been the strategy.

SINGER QUARTER RESULTS	16-Mar	16-Jun	16-Sep	16-Dec	17-Mar	17-Jun	17-Sep	17-Dec
Sewing m/c sales	74.3	77.3	75.7	70	68	69	75	86
Domestic appliances sales	12.3	18.4	15.9	23	24	29	21	32
Total Revenue	86.6	95.7	91.6	93	92	98	96	118
Dom App/ Total sales % age	14.2	19.2	17.4	24.7	26.1	29.6	21.9	27.1
PBT minus Fin cost for Sewing	7	7.7	8.6	7.9	6.75	7.4	8.75	7.7
PBT minus Fin cost for Dom App	-0.6	-0.2	-0.8	-0.2	-0.5	Nil	-0.1	1.23
PBT	2.6	3.5	3.95	2.6	1.93	3.03	3.5	3.66
Segment assets for sewing						62.7	70.6	77.85
Segment assets for Dom App						34	45.5	47.3
Segment Assets for Unallocated						16	17.8	18
Segment liabilities Sewing						31	37	45
Segment liabilities Dom App						5.1	17.7	19.3
Segment liabilities Unallocated						20.3	25.7	23
Segment Assets minus Liabilities sewing	27.4	25.9	28	34	31.3	31.7	33.6	32.85
segment Assets minus Liabilities Dom App	15.4	16.9	23	25	24	28.9	27.8	28
segment Assets minus Liabilities Un allocated	5.3	7.5	1.5	-0.5	2.2	-4.3	-7.9	-5
Inventories	39.2		43		54			
Trade receivables	23.6		35		35			

- A 100% contribution to revenues from sewing machine business has progressed to near 75% sewing and 25% home appliances in the recent quarters.

- In total it does 400cr sales with wafer thin margins. Most of the production is outsourced. It enjoys high fixed asset and inventory turnover. Three year average ROE is at 18%

- The home appliance division continues to make losses except for the last quarter. The break even point for home appliances is 120cr, which is within touching distance.
- Singer India has a stated objective of taking the home appliance contribution to 50% in the coming years and the recent inventory push with stable cash conversion cycle points to the possibility of it happening within a couple of years.
- Key person is Rajeev Bajaj, who has been with the company for 25+ years and was appointed as director in 2012. Remuneration of 80l. He holds no stake in the company.
- In the Singer India investors communication and reports there is no clue onto who provides the strategy or long term outlook for the company. There is one Gavin walker on the board, a south african who has a experience of steering a MNC spanning 16 countries in Africa. He is not involved in day today running of the company.
- Singer Asia has been a seller of stock in Singer India throughout 2017. From 75% , it has gone down to 60%.
- The holding structure of Singapore Asia and Singer India.



- From Singer Asia , there is 'facade' of clear strategy and a long term roadmap to sustained improvement and growth .

<http://www.singerasia.com/inpages/corporate/strategy.html>

- Singer Asia is held by Retail holdings Netherlands(54%) , UCL Asia (41%) , Gavin walker (5%). Gavin walker has 5% from converting his allotted options. UCL Asia is a private equity firm, whose stated objective is to take minority interest in promising firms, but does not involve itself in operations.The firm by itself is promoter run and does not even hire analysts!

- The interesting part is with Retail holdings Netherlands..mainly with its strategy. This is from the Retail holdings 2017 AR , released on April 2018.

### Strategy

The Company's strategy is to maximize and, ultimately, to monetize the value of its assets.

The Company will seek to enhance the liquidation value of Sewko through profitable growth of its core businesses alongside initiatives to exploit ancillary opportunities that leverage the Singer brand and Sewko's unique distribution footprint. The catalyst for the liquidation of the ultimate public holding company (hereinafter referred to as "ReHo"), will be the sale of Sewko, either through a sale of the Sewko shares or a sale of the shares of the Sewko public company subsidiaries, either through sales in the local equity markets or to strategic investors, either in a single transaction or in a series of such transactions. The target timetable to commence the Company's ultimate liquidation is in one to two years.



- In previous years AR too, this strategy is clearly spelt out, no ambiguity there. Their objective is complete liquidation of the Singapore asia business and distribution of that cash to Retail holding NV shareholders. There is a history of these divide payouts to the shareholders in recent quarters. Their 54% stake in Singapore Asia is the only meaningful part of the company, no other viable businesses in it.

- This is what they have done in the past couple of years.

### Sewko 2015- 2017 Divestiture As at December 31, 2017

(US\$ millions)

	<u>Net Proceeds</u>
<b>2015</b>	
Singer Bangladesh – sale of 2.2% of shares	3.08
Singer Thailand – sale of 40.0% of shares (entire Sewko stake)	<u>43.24</u>
	46.32
<b>2016</b>	
Singer Bangladesh – sale of 2.7% of shares	4.56
Singer Pakistan – sale of 70.3% of shares (entire Sewko stake)	2.32
Singer Sri Lanka – sale of 6.4% of Singer Sri Lanka shares	6.08
Sri Lanka – sale of other Sri Lanka company shares (entire Sewko stakes) to Singer Sri Lanka	<u>9.60</u>
	22.56
<b>2017</b>	
Singer Bangladesh – sale of 13.1% of shares	20.27
Singer India – sale of 14.2% of shares	5.74
Singer Sri Lanka – sale of 70.2% of shares	<u>78.39</u>
	104.40
<b>Total</b>	<u><u>173.28</u></u>

- Singer Srilanka and Singer Bangladesh were market leaders . In September 2017, they divested Singer Srilanka and in India,Bangladesh they are in process and its happen now.

- All this is not provided in Singer India's communication . What appeared to be a promising growth story has lots of uncertainty surrounding it.

- The question is..can this uncertainty be a chance for value creation?

- There are lots of probable outcomes. Promoter sells Singer India to another MNC who is looking at a entry to India OR sells it to a big retailer in India who can add more value OR /AND investors punish the stock for promoter selling OR/AND success in Home appliance segment with visible gain in market share for brand singer can fetch premium valuations.

- While this divesture plans are hidden , there is no evidence of foul play, where Singer India gets sold at poor valuations. All the cash that goes into Retail Holdings NV is being paid out as dividends. There is no incentive for them to cheat.

Curious case. .Can this be a opportunity to buy a stake in a promising story for the future ?