

JUNE 11, 2019

	10-Jun	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	39,785	0.4	6.2	8.5
NIFTY Index	11,923	0.4	5.7	8.0
NSEBANK Index	31,034	(0.1)	6.9	11.8
NIFTY 500 Index	9,766	0.3	5.1	6.0
CNXMcap Index	17,791	0.1	4.5	2.4
BSESMCAP Index	14,585	(0.5)	3.4	0.4
<b>World Indices</b>				
Dow Jones	26,063	0.3	0.5	1.6
Nasdaq	7,823	1.0	(1.2)	3.5
FTSE	7,376	0.6	2.4	3.4
NIKKEI	21,134	1.2	(0.6)	0.4
Hangseng	27,579	2.3	(2.7)	(2.6)
Shanghai	2,852	0.9	(1.5)	(4.4)

<b>Value traded (Rs cr)</b>	10-Jun	% Chg Day
Cash BSE	1,991	(39.2)
Cash NSE	26,822	(11.8)
Derivatives	948,238	0.5

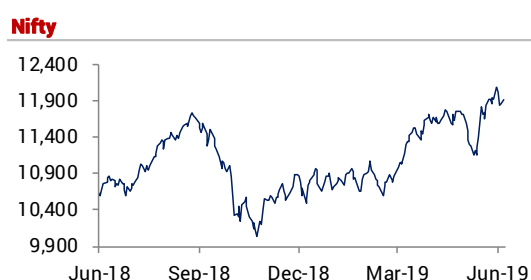
<b>Net inflows (Rs cr)</b>	7-Jun	MTD	YTD
FII	(385)	536	78,583
Mutual Fund	80	(1,248)	1,254

<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
10-Jun	(Rs)	(%)	(mn)
<b>Gainers</b>			
Britannia Ind	2,994	3.3	0.5
Tech Mahindra	768	2.3	2.5
TCS	2,232	2.3	2.1
<b>Losers</b>			
BPCL	390	(3.3)	5.4
Yes Bank	136	(2.9)	86.4
Coal India	259	(2.4)	4.9

<b>Advances / Declines (BSE)</b>					
10-Jun	A	B	T	T total	% total
Advances	200	277	37	514	100
Declines	254	686	83	1,023	199
Unchanged	6	23	14	43	8

	10-Jun	% Chg		
		1 Day	1 Mth	3 Mths
<b>Commodity</b>				
Crude (US\$/BBL)	62.3	0.0	(11.8)	(6.4)
Gold (US\$/OZ)	1,328.0	(1.0)	3.4	2.8
Silver (US\$/OZ)	14.7	(2.1)	(0.4)	(3.9)

<b>Debt / Forex Market</b>	10-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.1	7.0	7.4	7.4
Re/US\$	69.7	69.5	69.9	69.9



Source: Bloomberg

## News Highlights

- ▶ The Goods and Services Tax Council in its first meeting under the new chairman, Union Finance Minister Nirmala Sitharaman, on June 20 will consider the introduction of an electronic invoicing mechanism for large companies on a voluntary basis, with an aim to capture transactions on a real-time basis. (BS)
- ▶ The central government took the unprecedented step of seeking a ban on auditors Deloitte Haskins & Sells and BSR & Co for their alleged role in helping hide bad loans at the bankrupt **IL&FS Financial Services**. (ET)
- ▶ The government has set up an expert panel to consider allowing private firms to sell subsidised cooking gas a long-standing demand for companies like **Reliance Industries** because state firms dominate the market by luring customers with a lot of subsidies. (ET)
- ▶ **Maruti Suzuki India** has cut vehicle production by over 18 per cent in May, according to a regulatory filing. It is the company's fourth consecutive month of taking a production cut. The car market leader produced a total of 1,51,188 units in May, including Super Carry LCV, down 18.1% from 1,84,612 units in the year-ago month. (BS)
- ▶ Reaffirming its focus on product innovation, **Tata Steel** plans to develop 40 new product grades at its greenfield steel project at Kalinganagar (Odisha) in this financial year. (BS)
- ▶ **Infosys** said it has set up an experience design and innovation studio in Shoreditch, London. The facility will provide space for Infosys and its clients to ideate, collaborate and innovate together by combining design and the latest technology offerings, including artificial intelligence, augmented reality/virtual reality, Internet of Things and 5G. (BS)
- ▶ **UltraTech Cement** has got environment ministry's nod for a Rs25 bn project in Andhra Pradesh, as per an official document. Under the project, the company will set up an integrated cement plant at Petnikote village in Kurnool district with a clinker capacity of 4 MTPA, 6 MTPA of cement, 60 MW of captive power plant and 15 MW of waste heat recovery-based power unit. (ET)
- ▶ The Central Bureau of Investigation and the Enforcement Directorate may be drafted in to investigate the unfolding **Jammu & Kashmir Bank** corruption scandal. Government sources said investigations by the Anti-Corruption Bureau of Jammu & Kashmir police have uncovered the likely diversion of loans worth Rs10 bn. (ET)
- ▶ **Bharti Airtel** will pay the Tanzanian government 60 bn shillings (\$26.2 mn) over a period of five years to settle an ownership dispute. (BS)
- ▶ A joint resolution plan submitted by JM Financial Asset Reconstruction Co and **Reliance Industries** to take over distressed textiles company **Alok Industries** has hit a roadblock after **GAIL India**, an operational creditor to Alok, challenged the plan before an appellate court. (ET)
- ▶ **Jaypee Infratech** have turned down the proposal submitted by NBCC (India) to acquire the company, sources said. (BS)
- ▶ **Aditya Birla Fashion and Retail Limited** has acquired Jaypore, an artisanal etailer, for Rs1.1 bn to enter the largely unorganised market of traditional and ethnic products. (ET)
- ▶ SEBI is likely to ask Brookfield to alter the structure of its bid to acquire the assets of **Hotel Leelaventure**. (BS)

## What's Inside

- ▶ **Result Update:** MIRC Electronics Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Result Update

# MIRC ELECTRONICS LTD

### Stock Details

Market cap (Rs mn)	:	4353
52-wk Hi/Lo (Rs)	:	37 / 15
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	257,635
Shares o/s (m)	:	231

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	6,445	7,500	8,200
Growth (%)	(11.5)	16.4	9.3
EBITDA	166	435	493
EBITDA margin (%)	2.6	5.8	6.0
PAT	(28)	217	266
EPS	(0.1)	0.9	1.2
EPS Growth (%)	na	na	22.8
BV (Rs/share)	9.1	10.1	11.2
Dividend/share (Rs)	-	-	-
ROE (%)	(2.5)	8.9	9.9
ROCE (%)	2.3	7.1	7.7
P/E (x)	(73.1)	20.2	16.5
EV/EBITDA (x)	29.5	11.4	9.9
P/BV (x)	2.1	1.9	1.7

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	52.9	52.9	52.9
FII	1.7	1.7	1.7
DII	0.0	0.0	0.0
Others	45.4	45.4	45.4

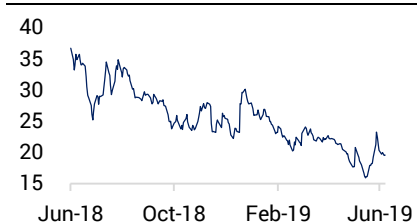
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
MIRC Electronics	4.7	(17.1)	(15.3)
Nifty	5.7	8.0	13.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## PRICE RS.19

## TARGET RS.17

## SELL

Expectedly, MIRC reported weak set of numbers for the fourth quarter. Decline in revenue led to pressure on EBITDA margins and this coupled with higher interest expenses led to a minor loss for the quarter.

### Key Highlights

- Revenue degrew by 17% y-o-y on the back of lower offtake in the room AC segment.
- The demand in the room AC industry was weak due to (1) excess inventory in the system and (2) delayed onset of summer
- Profitability in the room AC segment in Q4FY2019 and FY19 was impacted by rupee depreciation, higher discounting/inability to pass on input cost pressures from higher commodity prices and increase in import duties

### Valuation and Outlook

- MIRC is trading at 21.3x and 12.0x FY20E earnings and EV/EBITDA respectively. While we remain positive on the consumer durables demand growth story in India we believe increasing level of competition (entry of Chinese players) and cost pressures is likely to keep margins under pressure. Also, rising working capital is likely to drive interest cost thus leading to lower earnings.
- On account of downward revision in earnings, our price target now stands at Rs 17 (Rs 21 earlier) based on 18x FY20E. In our earlier update, we had downgraded the stock to "Sell" rating. Since the performance of the company continues to remain below expectations, **we maintain "Sell" and also discontinue coverage on the company.**

### Quarterly performance

Rs mn	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
<b>Net Sales</b>	<b>1559</b>	<b>1884</b>	<b>-17.3</b>	<b>1606</b>	<b>-3</b>
Raw Material Consumed	187	637	-70.6	678	-72
Stock Adjustment	319	-621	-151.4	-501	-164
Purchase of Finished Goods	725	1413	-48.7	982	-26
Employee Expenses	151	148	2.2	171	-12
Loss on Forex Transaction	0	24		0	
Other Expenses	140	229	-39.2	208	-33
<b>TOTAL EXPENDITURE</b>	<b>1522</b>	<b>1829</b>	<b>-16.8</b>	<b>1538</b>	<b>-1</b>
<b>PBIDT</b>	<b>37</b>	<b>55</b>	<b>-32.5</b>	<b>68</b>	<b>-46</b>
Other Income	12	33	-64.0	5	155
Depreciation	17	23	-25.1	20	-15
<b>EBIT</b>	<b>32</b>	<b>65</b>	<b>-51.1</b>	<b>53</b>	<b>-39</b>
Interest	38	25	50.2	41	-6
<b>PBT</b>	<b>-6</b>	<b>40</b>	<b>-115.0</b>	<b>12</b>	<b>-150</b>
Tax	-	-		-	
Reported Profit After Tax before Exp items	-6	40	-115.0	12	-150
Extra-ordinary Items gain (loss)	-18	0		2	-1089
<b>Reported Profit After Extra-ordinary item</b>	<b>-24</b>	<b>40</b>	<b>-159.4</b>	<b>14</b>	<b>-271</b>
EBITDA (%)	2.4	2.9		4.2	
Raw material cost to sales (%)	79.0	75.8		72.2	
Employee cost to sales (%)	9.7	7.8		10.7	
Other expenditure to sales (%)	8.9	12.2		12.9	
Tax rate (%)	-	-		-	
<b>EPS (Rs)</b>	<b>-0.1</b>	<b>0.2</b>		<b>0.1</b>	

Source: Company

## Result Highlights

### Healthy revenue growth

MIRC's product portfolio includes LED TV, Room ACs, Washing Machines and Microwaves. Out of these, LED TVs and Room ACs account for 85% of annual revenues.

Net sales for the quarter declined 17% on a y-o-y basis, which was mainly attributed to decline in revenue from the room AC segment.

The room AC segment performance on yoy basis was impacted by (1) weak industry demand scenario, (2) excess inventory in the system and (3) delayed onset of summer

### Margins under pressure

Gross margins decreased by 320 bps in Q4FY19 due to a combination of rupee depreciation, higher discounting/inability to pass on input cost pressures from higher commodity prices and increase in import duties.

Employee costs remained flat on a y-o-y as well. This is due to manpower rationalization in its Wada plant.

Other expenditure declined 39% y-o-y to Rs 140 mn, due to lower revenue and cut in spending on brand building and sales promotion.

As a result of lower gross margins, the company reported drop in EBITDA margins to 2.4% as compared to 2.9% in corresponding quarter of the previous fiscal.

Interest cost rose sharply by 50.2% y-o-y to Rs 38 mn, but declined on a sequential basis.

Gross borrowings rose to Rs 654 mn in FY19 as against Rs 482 mn in FY18.

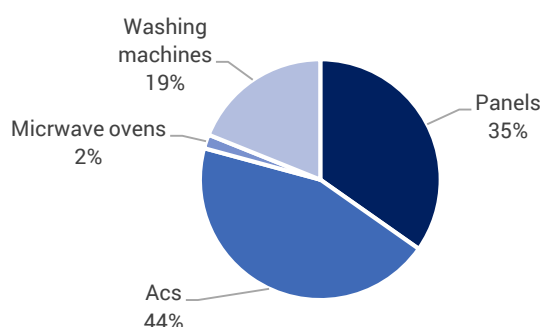
Since the company has accumulated losses of the previous fiscals, it did not provide for any tax in the quarter.

### Other developments

During the quarter, the company sold land and building located at Noida resulting in to a profit of Rs.47 mn, which has been considered as an exceptional item.

During the quarter, the company has approved discontinuation of CTV business due to non-availability of major input components and technological changes. Accordingly, further provision has been made in respect of inventory resulting in to one time charge of Rs. 62.8 mn for FY19, which has been considered as an exceptional item.

### Revenue mix FY19 (%)



Source: Company

### Earnings Revision - FY20

(Rs mn)	Earlier	Revised
Revenue	8,874	7,500
EBITDA (%)	5.2	5.8
EPS (Rs)	1.4	0.9
% change		-32.5%

Source: Kotak Securities – Private Client Research

### Outlook

The room AC industry had planned for a growth of 10-15% in FY19 but due to weak summer season sales in Q1FY19, the industry had been saddled with excess inventory until middle of Q4FY19. Given this, the industry's focus has been on liquidation of excess inventory. This has resulted in the industry deferring taking price hikes in response to cost pressures from commodity and forex front. As a result, in FY19, major AC manufacturers have reported pressure on margins.

### Valuations

On account of downward revision in earnings, our price target now stands at Rs 17 (Rs 21 earlier) based on 18x FY20E. In our earlier update, we had downgraded the stock to "Sell" rating. Since the performance of the company continues to remain below expectations, **we maintain "Sell" and also discontinue coverage on the company.**

### Company Background

MIRC electronics ventured into TV manufacturing in 1981 with a collaboration with JVC of Japan. The company realized that a unique trait of Indian viewers was that they liked TVs that had good features in sound quality. Thus the company's focus remained on providing sound quality meeting the requirement of Indian households.

Starting with a goal of manufacturing television sets, it transformed into a complete consumer durable company with a wide product portfolio including Flat panel TVs (LED & LCD TVs), Air Conditioners, Washing Machines, Microwave Ovens, DVD & Home Theatre systems, Mobile phones, Projector systems and LED lights.

Onida has been an enduring brand in the Indian Consumer Durable space, and has won the trust of millions of consumers with its high quality products. The advertisements that Onida brought out broke all conventions and are a defining feature of the organisation. The company created amongst the most powerful icons in advertising, the Onida Devil, and amongst the most memorable taglines, 'Neighbour's envy. Owner's pride.' The company's board presently comprises of eight directors, which consists of four executive directors and four non-executive Independent Directors. Mr Gulu Mirchandani is the chairman and Managing Director and also one of the promoters of the company. Mr Vijay Mirchandani is the promoter and joint Managing Director

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>7,281</b>	<b>6,445</b>	<b>7,500</b>	<b>8,200</b>
% change yoy	(2.6)	(11.5)	16.4	9.3
<b>EBITDA</b>	<b>423</b>	<b>166</b>	<b>435</b>	<b>493</b>
% change yoy	16.2	(60.7)	161.5	13.3
Depreciation	95	83	85	86
<b>EBIT</b>	<b>329</b>	<b>84</b>	<b>351</b>	<b>408</b>
% change yoy	26.5	(74.5)	318.8	16.3
Net Interest	141	148	168	156
Other Income	20	36	35	35
Earnings Before Tax	208	(28)	217	287
% change yoy	605.2	(113.5)	(875.2)	32.0
Tax	0.0	0.0	0.0	20.1
as % of EBT	0.0	0.0	0.0	7.0
Net Income adj	208	(28)	217	266
% change yoy	593.5	(113.5)	(875.2)	22.8
Exceptional items	24.3	-16.0	0.0	0.0
<b>Reported Net Income</b>	<b>232</b>	<b>(44)</b>	<b>217</b>	<b>266</b>
Shares outstanding (m)	231	231	231	231
<b>EPS (Rs)</b>	<b>0.9</b>	<b>-0.1</b>	<b>0.9</b>	<b>1.2</b>
DPS (Rs)	0.0	0.0	0.0	0.0
CEPS	1.5	0.1	1.3	1.5

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBDIT	423	166	435	493
Tax and adjustments	(213)	(17)	0	(20)
Cash flow from operations	211	150	435	473
Net Change in Working Capital	(15)	(102)	(344)	(199)
<b>Net Cash from Operations</b>	<b>195</b>	<b>48</b>	<b>92</b>	<b>274</b>
Capital Expenditure	(29)	(35)	(30)	(50)
Cash from other cur assets/inc	303	(150)	35	35
<b>Net Cash from Investing</b>	<b>273</b>	<b>(185)</b>	<b>5</b>	<b>(15)</b>
Interest paid	(141)	(148)	(168)	(156)
Issue of Shares	896	0	0	0
Dividends Paid	0	0	0	0
Debt Raised	(1,192)	172	96	(200)
<b>Net cash from financing</b>	<b>(437)</b>	<b>24</b>	<b>(72)</b>	<b>(356)</b>
Net change in cash	32	(113)	25	(97)
Free cash flow	166	13	62	224
cash at end	243	130	155	58

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	243	130	155	58
Accounts receivable	1,341	1,196	1,397	1,528
Stocks	2,247	2,149	2,507	2,741
Loans and Advances	21	35	46	46
Others	208	105	110	110
Current Assets	4,060	3,615	4,215	4,483
LT investments	26	26	26	26
Net fixed assets	1,058	1,010	955	920
Intangible assets	3	4	4	4
Deferred tax assets	-	-	-	-
CWIP	6	6	6	6
Other non current assets	145	350	350	350
Non current receivables	-	-	-	-
Long term loans and advances	128	110	110	110
<b>Total Assets</b>	<b>5,427</b>	<b>5,121</b>	<b>5,666</b>	<b>5,898</b>
Payables	2,441	2,022	2,225	2,391
Provisions	131	110	138	138
Current liabilities	2,572	2,132	2,363	2,529
LT debt	482	654	750	550
Equity & reserves	2,374	2,335	2,552	2,819
<b>Total Liabilities</b>	<b>5,427</b>	<b>5,122</b>	<b>5,666</b>	<b>5,898</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	5.8	2.6	5.8	6.0
EBIT margin (%)	4.8	1.9	5.1	5.4
Net profit margin (%)	2.9	-0.4	2.9	3.2
Adjusted EPS growth (%)	593.5	na	na	22.8
Receivables (days)	67.2	67.7	68.0	68.0
Inventory (days)	112.7	121.7	122.0	122.0
Sales / Net Fixed Assets (x)	6.9	6.4	7.9	8.9
ROE (%)	13.2	(2.5)	8.9	9.9
ROCE (%)	6.4	2.3	7.1	7.7
EV/ Sales	0.6	0.8	0.7	0.6
EV/EBITDA	10.9	29.5	11.4	9.9
Price to earnings (P/E)	17.1	(73.1)	20.2	16.5
Price to book value (P/B)	2.0	2.1	1.9	1.7
Price to cash earnings	12.5	193.3	14.5	12.5

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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<b>RS</b>	–	<b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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