

SEPTEMBER 18, 2018

	17-Sep	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	37,586	(1.3)	(1.0)	5.5
NIFTY Index	11,378	(1.2)	(0.8)	5.2
NSEBANK Index	26,820	(1.3)	(4.7)	1.5
NIFTY 500 Index	9,696	(1.0)	(0.8)	3.8
CNXMcap Index	19,263	(0.7)	(0.9)	2.4
BSESMCAP Index	16,663	(0.0)	(1.2)	(1.8)
<b>World Indices</b>				
Dow Jones	26,062	(0.4)	1.5	4.3
Nasdaq	7,896	(1.4)	1.0	1.9
FTSE	7,302	(0.0)	(3.4)	(4.3)
NIKKEI	23,095	1.2	4.8	2.1
Hangseng	23,095	1.2	4.8	2.1
Shanghai	26,933	(1.3)	(1.9)	(11.9)

<b>Value traded (Rs cr)</b>	17-Sep	% Chg Day
Cash BSE	2,848	10.7
Cash NSE	29,218	(13.4)
Derivatives	794,587	29.7

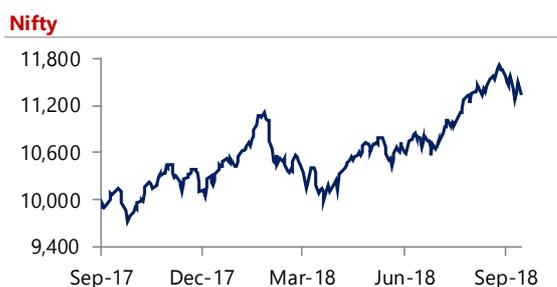
<b>Net inflows (Rs cr)</b>	14-Sep	MTD	YTD
FII	680	(738)	(6,177)
Mutual Fund	135	4,102	80,718

<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
17-Sep	(Rs)	(%)	(mn)
<b>Gainers</b>			
BPCL	364	2.7	9.0
HPCL	258	2.3	7.4
Eicher Motors	29,664	1.0	0.0
<b>Losers</b>			
Sun Pharma	646	(2.9)	6.3
Bharti Infra	267	(2.8)	2.3
Bajaj Finance	2,605	(2.5)	1.5

<b>Advances / Declines (BSE)</b>					
17-Sep	A	B	T	Total	% total
Advances	174	453	68	695	100
Declines	256	565	78	899	129
Unchanged	2	19	20	41	6

<b>Commodity</b>	17-Sep	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	77.7	(0.5)	8.1	3.1
Gold (US\$/OZ)	1,201.5	0.7	1.1	(6.3)
Silver (US\$/OZ)	14.2	0.9	(4.7)	(14.4)

<b>Debt / forex market</b>	17-Sep	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	77.7	(0.5)	8.1	3.1
Re/US\$	14.2	0.9	(4.7)	(14.4)



Source: Bloomberg

## News Highlights

- ▶ Following last week's incentive package under which the price of ethanol was increased, another dose of incentives for over supplied sugar mills are on the cards. The package being actively considered includes raising minimum selling prices (MSP) of sugar manufactured by mills to Rs.34/kg and loan restructuring or similar incentives for cooperative sector sugar mills. (BS)
- ▶ India is likely to unveil steps to curb imports of several non-essential items such as steel, furniture, electronic items and consumer durables this week. Food items such as nuts and fruits could also be on the list. The government has identified restrictions on non-essential imports as one of the ways in which to rein in the current account deficit and reduce pressure on the rupee. (ET)
- ▶ Solar project developers have cautioned the government that the decision to cap tariffs in future auctions at Rs2.50 per unit needs to be reversed because it will make projects unviable as their bids are determined by changes in module prices, currency risks and varied solar radiation across states.(ET)
- ▶ The central government proposed to create the country's third-largest bank by amalgamating **Dena Bank** and **Vijaya Bank** with much larger **Bank of Baroda** in an all-stock deal. (BS)
- ▶ **Coal India's (CIL's)** plans to export coal to SAARC countries has been put on the back-burner as the state-owned miner is facing a steep challenge to supply adequate coal to domestic power plants. (BS)
- ▶ **GMR Infrastructure** is looking to monetise land parcels around the Hyderabad international airport, which it owns and operates. (ET)
- ▶ **Tata Motors** owned Jaguar Land Rover confirmed a cut in its production schedule at the Castle Bromwich plant in the West Midlands region of England due to "continuing headwinds" impacting the British automobile industry. (BS)
- ▶ Goodricke Group to acquire specified assets of **Mcleod Russel** India's tea estate in Assam. (BS)
- ▶ At a time when demand concerns have dogged the power sector, **Power Trading Corporation** is playing the role of an aggregator and has successfully completed bidding for 1,900 Mw of short-term power contracts. Simultaneously, it is looking for a second tranche of power procurement and is planning to go the whole hog into trading through power exchange in tie-up with **ICICI** and **BSE**. (BS)
- ▶ **State Bank of India**, the lead banker of **Uttam Galva Steels**, has informed ArcelorMittal - the co-promoter of the bankrupt company - that its transfer of shares in February this year to the company's co-promoter, the Miglanis, violated the non-disposal agreement and hence, the shares transferred to the Miglanis will require lenders' clearance. (BS)

## What's Inside

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

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

## Company Update

### Stock Details

Market cap (Rs mn)	:	6513
52-wk Hi/Lo (Rs)	:	65 / 24
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	354,893
Shares o/s (m)	:	231

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	7,281	7,624	9,590
Growth (%)	(2.6)	4.7	25.8
EBITDA	423	392	544
EBITDA margin (%)	5.8	5.1	5.7
PAT	208	213	406
EPS	0.9	0.9	1.8
EPS Growth (%)	593.5	2.4	90.5
BV (Rs/share)	10.3	11.2	13.0
Dividend/share (Rs)	0.0	0.0	0.0
ROE (%)	13.2	8.6	14.5
ROCE (%)	6.4	6.1	8.6
P/E (x)	25.2	30.4	15.9
EV/EBITDA (x)	15.8	16.7	12.0
P/BV (x)	3.0	2.7	2.3

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	52.9	52.9	57.7
FII	1.7	1.6	1.6
DII	0.0	0.0	0.0
Others	47.1	47.1	40.7

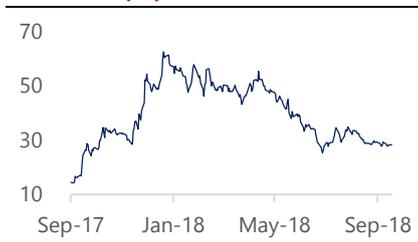
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
MIRC Electronics	(2.3)	(17.8)	(42.2)
Nifty	(0.8)	5.2	11.6

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## MIRC ELECTRONICS LTD

PRICE Rs.28

TARGET Rs.32

BUY

In our meeting with MIRC Electronics, the management indicated that it has streamlined workforce in the earlier year and is now focusing on brand building and contract manufacturing for OEMs

### Key Highlights

- While the growth in room AC segment has been subdued due to excess inventory in the system, the washing machine sales are growing at a brisk pace.
- The company has received orders for contract manufacturing of LED TVs from a domestic conglomerate.
- The management is expecting more of such deals to fructify in the future.

### Valuation and Outlook

MIRC is trading at 30.4x and 16x FY19E and FY20E earnings respectively. The stock's valuation is at a discount to peers in the consumer durables space. One of the reasons being weak earnings numbers in recent quarters.

We remain positive on the consumer durables demand growth story in India and in view of the adequate upside to our unchanged target price of Rs 32 (at 18x FY20E), move rating to BUY (Accumulate earlier).

### Key Highlights

#### Air Conditioners

- Room ACs are mainly imported from China (GREE, Midea) and sold under the Onida brand in India. The company has its own quality check team based out of China, which ensures product quality. Also, the ACs are made of 100% copper coils and the most environment friendly refrigerant gases.
- Given that the demand is mainly driven by the Inverter AC segment, the company in FY18, launched almost 80 plus models. Around 40% of the company's AC sales are of inverters.
- During FY18, this segment has witnessed de-growth of 19% as company lost out on account of disruptions related to GST and change in efficiency ratings in Jan 2018.
- Also, the industry had hoped for a good demand for ACs in the summer but unseasonal rains and early start of monsoons dampened demand resulting in excess inventory at the manufacturer and dealer level.

#### LED Panels

- In the LED TVs business, the company has always tried to differentiate its products in terms of superior sound output. In line with this, the company launched KY Super Thunder LED TVs in FY18. The KY Thunder has 8 built-in speakers for music-system type sound effect.
- During the year under review, this segment has witnessed a growth of 18 percent.

### Washing Machines

- In this segment, the company has products in Top Load, Front Load and Semi-Automatic category.
- During FY18, this segment has witnessed a growth of 22 percent.
- In the first quarter of the current fiscal, this segment has grown 80% y-o-y.
- The strong growth has been driven by commencement of manufacturing operations at its Washing Machines plant in North India.

### Contract manufacturing – new growth opportunity

- With a view to drive indigenization of electronics manufacturing in India, the government had reduced customs duty on open cell panel to 5%. It had earlier hiked duty on assembled panels and ready-to-use TV's to 15% and 20% respectively.
- This has created a strong incentive for brands to import open cell panel at 5% and then assemble it in India. For MIRC Electronics, this has opened up a new revenue stream.
- It already has third party manufacturing orders of Rs 500 mn from a large Indian conglomerate with operations in retailing.
- In this model, the customer (OEM) gives 100% of the raw materials to MIRC for assembling. MIRC will charge ~ 3.5% margin for this work.
- In addition to this, there are several other European brands that are in talks with MIRC for contract manufacturing.
- As a contract manufacturer, the company needs BIS certification before it can start manufacturing for OEM. It has already applied for BIS certification for four prototypes from various Electronics OEMs.

### Outlook

- In the room AC segment, the company expects demand in H1FY19 to be impacted due to excess inventory in the system.
- The LED TV business should grow at a healthy pace aided by sales of KY Super Thunder series of TVs.
- The company expects the Washing Machines sales to grow 80% in FY19 as the company has launched 17 new models and its manufacturing plant in North India has commenced operations.

### New initiatives

- The company has consolidated its manufacturing and warehousing operations to improve productivity. It also plans to sell all its non-core assets (~ Rs 1.0 of real estate) to strengthen its balance sheet.
- The company's products are perceived well on manufacturing quality but scores lower on after sales support. This is an area where the company is working on.
- The company has also increased its advertising budget in FY19. It has an arrangement with the Times group (holds 6.7% stake in the company) as per which advertising cost to the extent of 65% will be borne by the media agency and the rest by MIRC.

## Financial Outlook

- Due to tepid summer season sales of room ACs in Q1FY19 and impact of forex loss, the company reported weak set of Q1FY19 profits. Given the excess inventory of room ACs in Q1FY19, it is likely that the Q2FY19 profits would also be subdued.
- However, the Washing Machine business is doing well (growth of 80% in Q1FY19) and LED TVs are also posting healthy growth. Revenue would also be aided by contract manufacturing for OEMs. However, we have not factored in revenue from contract manufacturing for OEMs in projections.
- Thus, we are projecting 45% CAGR in earnings growth over FY18-20.
- The company will continue to remain zero-tax paying in FY19.

## Valuations

- MIRC is trading at 30.4x and 15.9x FY19E and FY20E earnings respectively. The stock's valuation is at a discount to peers in the consumer durables space. One of the reasons being weak earnings numbers in recent quarters.
- We remain positive on the consumer durables demand growth story in India and in view of the adequate upside to our unchanged target price of Rs 32 (at 18x FY20E), move rating to BUY (Accumulate earlier).

## 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: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>7,476</b>	<b>7,281</b>	<b>7,624</b>	<b>9,590</b>
% change yoy	(3.2)	(2.6)	4.7	25.8
<b>EBITDA</b>	<b>364</b>	<b>423</b>	<b>392</b>	<b>544</b>
% change yoy	na	16.2	(7.5)	38.9
Depreciation	105	95	92	92
<b>EBIT</b>	<b>260</b>	<b>329</b>	<b>300</b>	<b>452</b>
% change yoy	(308.5)	26.5	(8.7)	50.7
Net Interest	236	141	112	60
Other Income	6	20	25	35
Earnings Before Tax	29	208	213	427
% change yoy	(107.7)	605.2	2.4	100.5
Tax	(1)	-	-	21
as % of EBT	(1.7)	-	-	5.0
Net Income adj	30	208	213	406
% change yoy	(109.5)	593.5	2.4	90.5
Exceptional items	(87)	24	-	-
<b>Reported Net Income</b>	<b>(57)</b>	<b>232</b>	<b>213</b>	<b>406</b>
Shares outstanding (m)	231	231	231	231
EPS (Rs)	0.1	0.9	0.9	1.8
DPS (Rs)	0.0	0.0	0.0	0.0
CEPS	(0.2)	1.5	1.3	2.2

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	364	423	392	544
Tax and adjustments	(295)	(213)	-	(21)
Cash flow from operations	70	211	392	523
Net Change in Working Capital	184	(15)	(53)	(364)
<b>Net Cash from Operations</b>	<b>253</b>	<b>195</b>	<b>339</b>	<b>158</b>
Capital Expenditure	(4)	(29)	(100)	(100)
Cash from investing	98	303	25	35
<b>Net Cash from Investing</b>	<b>94</b>	<b>273</b>	<b>(75)</b>	<b>(65)</b>
Interest paid	(236)	(141)	(112)	(60)
Issue of Shares	170	896	-	-
Dividends Paid	-	-	-	-
Debt Raised	(321)	(1,192)	(232)	(100)
<b>Net cash from financing</b>	<b>(387)</b>	<b>(437)</b>	<b>(344)</b>	<b>(160)</b>
Net change in cash	(40)	32	(80)	(67)
Free cash flow	249	166	239	58
cash at end	174	243	163	97

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	174	243	163	97
Accounts receivable	1,283	1,341	1,253	1,576
Stocks	2,057	2,247	2,193	2,759
Loans and Advances	154	21	46	46
Others	46	208	208	208
Current Assets	3,714	4,060	3,864	4,686
LT investments	-	26	26	26
Net fixed assets	1,136	1,058	1,066	1,074
Intangible assets	3	3	3	3
Deferred tax assets	-	-	-	-
CWIP	-	6	6	6
Other non current assets	-	145	145	145
Non current receivables	84	-	-	-
Long term loans and advances	499	128	128	128
<b>Total Assets</b>	<b>5,436</b>	<b>5,427</b>	<b>5,239</b>	<b>6,069</b>
Payables	2,187	2,441	2,258	2,783
Provisions	64	131	144	144
Current liabilities	2,251	2,572	2,402	2,927
LT debt	1,674	482	250	150
Equity & reserves	1,511	2,374	2,587	2,992
<b>Total Liabilities</b>	<b>5,436</b>	<b>5,427</b>	<b>5,239</b>	<b>6,069</b>
BVPS (Rs)	6.5	10.3	11.2	13.0

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	4.9	5.8	5.1	5.7
EBIT margin (%)	8.5	8.5	4.3	5.1
Net profit margin (%)	0.4	2.9	2.8	4.2
Adjusted EPS growth (%)	(109.5)	593.5	2.4	90.5
Receivables (days)	62.6	67.2	60.0	60.0
Inventory (days)	100.4	112.7	105.0	105.0
Sales / Net Fixed Assets (x)	6.6	6.9	7.1	8.9
ROE (%)	(9.7)	13.2	8.6	14.5
ROCE (%)	4.7	6.4	6.1	8.6
EV/ Sales	1.1	0.9	0.9	0.7
EV/EBITDA	21.9	15.8	16.7	12.0
Price to earnings (P/E)	(41.4)	25.2	30.4	15.9
Price to book value (P/B)	4.6	3.0	2.7	2.3
Price to cash earnings	(152.9)	18.4	21.2	13.0

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

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- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** 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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- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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