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INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

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TREASURE 

December 2017



The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code	: 532513
Time Duration	: 1 year
CMP	: ₹394.45 (as on 28 December, 2017)
Target Price	: ₹521

TVS Electronics

DIGITIZATION AND MOBILE PENETRATION TO SPUR COMPANY'S GROWTH

Our Tiny Treasure for the month of December is TVS Electronics. It is a part of the TVS Group, which was founded in 1986 as an IT peripherals manufacturer and has now transformed into a leading transaction automation IT product manufacturer and service provider. It provides extensive product lines across various brands via various delivery models, such as exclusive service centres, multi-brand service centres, onsite support, repair centres and factories, thus providing a complete suite of services. The company's products arm manufactures and sells point-of-sale (POS) devices, printers and keyboards through its dealer network spanning across more than 300 towns. Over the last two years, the company has shifted its focus towards distribution and trading of mobile phones.

Demonetisation triggers topline

Before demonetisation, ~80% of the transactions in India were in cash. After November 2016, when the government implemented demonetisation, a nationwide campaign of 'less cash to cashless' was launched. However, more than 80% of the Indian population still does not have access to internet. Thus, the dependence on cashless payment machines has increased significantly, which has proved beneficial for TVS Electronics. TVS Electronics is the only company manufacturing cashless payment machines in India. A remarkable rise in sales was seen from Q3FY17 onwards. In H1FY17, the company's generated revenue of Rs 829.9 crore, which almost doubled to Rs 1794.9 crore in H2FY17. The H1FY18 has also shown considerable growth, with topline of Rs 1859 crore. This has led to a rise in profitability in H2FY17 and H1FY18.

Tie-up with mobile companies

TVS Electronics was as an ace manufacturer and provider of dot matrix printers. But as the demand for laser printers increased, the company's business was affected and, therefore, it decided to change its product mix. From 2015, the company has tied-up with some of the well-known mobile companies to sell mobiles on a wholesale distribution basis. The company has tied up with one such well-known brand Xiaomi and this has led to growth in mobiles distribution segment. Almost 88% of the revenue of the company in FY17 was generated through sales of mobile phones. This segment has also raised opportunities for the company to

foray into repair and warranty management services segment. The penetration of mobile phones has increased tremendously in India and many new companies are entering into the market by introducing new mobile phones at affordable prices. This has enabled the company to provide services for multiple brands under one roof. However, the margins remain at moderate level in the mobile distribution business.

Retaining market share and growth in POS printer's segment

At end of FY17, the company had market share of 40% (increased by 3% in FY17) in dot matrix printers, despite the segment experiencing a slight decline due to low demand. The company also registered strong growth of 40% YoY in its point of sale (POS) printers range, namely, thermal and label printers, which is a high growth segment. The label printer, the other high growth product range, is equally promising where the company has retained its market share at 19%. For FY17, the manufacturing and trading of printers contributed about 10% towards the total revenue. Both the POS printer ranges, along with scanners and POS DMPs, are the core focus for expansion and deeper penetration for the company. In FY17, the company opened 11 new service centres in various cities and towns, taking the total count of these centres to 60 by the end of FY17.

Financial performance

In FY17, due to demonetisation, the company's topline grew by an exceptional 342.3% YoY from Rs 593.49 crore in FY16 to Rs 2625 crore. Its PAT jumped by 66.08% YoY from Rs 4.31 crore to Rs 7.16 crore in FY17. The company's receivable days have improved from 38.6 days in FY15 to 10.8 days in FY17. It has reduced debt in FY17 to Rs 28.9 crore from Rs 35.28 crore in FY16. This has improved its debt-equity ratio to 0.57x in FY17 from 1.4x in FY15. The interest coverage ratio too improved to 3.5x in FY17 from 1.46x in FY15. In Q2FY18, the company has performed well with growth in revenue by 40.7% to Rs 975.7 crore from Rs 693.1 crore in Q2FY17. Its EBITDA grew from Rs 4.7 crore in Q2FY17 to Rs 9.3 crore in Q2FY18. The PAT too increased by 188.3% to Rs 5.9 crore from Rs 2.05 crore on a YoY basis.

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Valuation

The company is trading at TTM P/E of 47.85x with TTM EPS of Rs 8.23. It has delivered ROE and ROCE of 15.37% and 11.03%, respectively, for FY17. The company has benefited tremendously by changing its product mix. The demonetisation move led to an uptick in demand for cashless payment machines and it will con

tinue to increase as India is set to become predominantly cashless with the government's focus on digitisation. The company's mobile distribution segment is also performing very well and we expect the company to continue to deliver robust growth going forward. We see a potential upside of 32% with target price of Rs 521 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	2625.03	593.49	270.06	247.42	235.25
Total Income	2626.44	595.03	271.03	249.62	237.75
Total Expenditure	2608.62	577.39	254.22	235.24	226.95
PBIDT	17.82	17.64	16.81	14.38	10.80
PAT	7.16	4.31	2.29	0.40	-8.01
Dividend %	5.00				
Adj. EPS(Rs)	3.85	2.32	1.27	0.22	-4.53

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201709	201706	Q on Q Var%	201609	Y on Y Var%
Net Sales	975.75	884.74	10.29	693.12	40.78
Total Expenditure	966.48	879.91	9.84	688.42	40.39
PBIDT (Excl OI)	9.30	5.02	85.26	4.76	95.38
PAT	5.91	2.40	146.25	2.05	188.29
PBIDTM% (Excl OI)	0.95	0.57	66.67	0.69	37.68
PBIDTM%	1.00	0.58	72.41	0.72	38.89
PATM%	0.61	0.27	125.93	0.30	103.33
Adj. EPS(Rs)	3.18	1.29	146.51	1.10	189.09

