

Dear Member,

We are pleased to inform you that Hidden Gem stock of Feb 2018 is released by our team. Hidden Gem stock of Feb month is **Singer India Ltd. [BSE Code: 505729]**. Singer India Ltd is a small cap company with market capital of Rs. 268 crores and operates in sewing machine products and home appliances.

Note: Detailed report of Singer India Ltd in PDF file format will be released on or before Saturday, 7 April 2018.

1. Company Background:

Established in 1977, Singer India Ltd is a 75% subsidiary of Singer India BV Netherlands. Singer India Ltd is India's second largest sewing machine manufacturer with an organised market share of around 40%. An ISO 9001:2008 certified company; Singer India Limited has two major business segments – Sewing Products and Home Appliances.

Singer India net worth was completely eroded by 2005. The company was making huge losses due to high competition, issues within management and J&K factory's labour problems. The company turned to be a sick company and hence entered BIFR in 2005. In the year 2008 with a new management in place, a restructuring plan was worked out for the revival of Singer India. Various steps like adjusting accumulated losses against share capital, infusion of fund by hiking stake of its parent company, a one-time settlement with banks, settlement with unsecured creditors etc were taken to improve the fiscal health of the company. With these initiatives, Singer India pared down its debt and accumulated losses to a much more manageable level and started working towards operational turnaround.

The company discharged from BIFR in February 2013. Post restructuring, Singer India focused on increasing its sales from sewing machines and simultaneously entered into small appliances business. Diversification into the appliances category is to leverage the old brand Singer and slow growth of the sewing machine industry.

Singer India successfully re-launched sewing machines in the domestic market and captured around 40% market share. The company pays trademark license fee @1% on consolidated revenue (total external sale less cash discount) to Singer Asia Holdings BV (Netherlands).

Singer India Limited, Bangladesh and Sri Lanka are strong operating subsidiaries of Singer Asia Limited. The company also operates direct selling business on a large scale in Thailand. Singer Asia Limited has been a leading retailer in household consumer durables (HCDs) in each of these markets, owing to the companies widely trusted product range.

2. Financial Performance

Singer India standalone net profit rises 32.95% in the December 2017 quarter

Net profit of Singer India rose 32.95% to Rs 2.34 crore in the quarter ended December 2017 as against Rs 1.76 crore during the previous quarter ended December 2016. Sales rose 28.20% to Rs 118.42 crore in the quarter ended December 2017 as against Rs 92.37 crore during the previous quarter ended December 2016

Singer India standalone net profit rises 5.61% in the September 2017 quarter

Net profit of Singer India rose 5.61% to Rs 2.26 crore in the quarter ended September 2017 as against Rs 2.14 crore during the previous quarter ended September 2016. Sales rose 6.72% to Rs 96.53 crore in the quarter ended September 2017 as against Rs 90.45 crore during the previous quarter ended September 2016.

3. Investment Rationale:

i) The home appliances market in India is poised for a major growth in future with higher consumer income levels and raise in aspirations for a better lifestyle amongst consumers. Moreover, with the GST in place, it is further expected that the share of branded products will go up with the quality products offerings at the competitive prices. The push in rural demand is likely to grow home appliance industry a lot and this industry is also poised to offer many new cost effective products to increase the comfort levels for the consumers.

ii) The Indian sewing machines industry is growing at a slower rate of 3-4% (in volume terms) due to lower acceptance of retail consumers. The sewing machine industry size is estimated to be ~30 lakh units of which ~55% is in the organised category. In the organised category, Usha is the market leader in the sewing machine category while Singer India commands around 40% market share.

iii) Considering the slower growth of sewing machine sales into India, the company is leveraging its strong brand to expand into small appliance categories wherein it has launched toasters, food processors, mixers, air coolers, etc. Singer India is also planning to launch new products, increase the SKUs of existing products and addition of new dealers to push up the sales of home appliances. In FY 2017, sewing machines segment contributed 78% to total revenues whereas home appliance contribution was 22%. As per management, home appliances expected to comprise 50% of revenue within next 5 years.

iv) The company will drive towards increasing its market share both in sewing machines and home appliances in the GST regime as the company expects to gain

share from the unorganized market. The company will augment its reach to the consumers by connecting with the customers, retailers and dealers in a more effective and fruitful manner. The company is focusing on improving its brand through digital marketing. Shop in shop concept has been implemented in large retail format stores to better connect to people besides expanding the conventional stores. The product range is being widened to offer choice to the customers.

v) The company has extensive distribution network with over 14,000 sales points which includes wholesale, retail, Ecommerce / telesales, corporate sales along with police and military canteens sales points. The company has around 55 retail shops with unique historic right to retail nationwide in India despite FDI restrictions in this sector.

vi) The small appliances market, which is a large and growing market in India offers tremendous opportunity to the company to achieve robust growth with its strong brand moat. Domestic appliances of Singer India include irons and steam irons, food processors, mixers, toaster, kettles, Induction cookers, geysers, fans, air coolers, sandwich makers, toasters etc. The company further plans to increase SKUs of existing products going forward.

vii) Singer India remained debt free post restructuring. Since the company is largely operating through outsourcing model there is no major capex in the near term. The company has taken various initiatives like strengthening the product range, distribution and after sales service to expand its turnover in domestic appliance business. The company has a wide range of kitchen and home comfort small appliances. Singer India has successfully expanded its sales of air-coolers and also introduced the heating range including the water heaters.

viii) Singer India has registered sales CAGR of 15.3% and profit CAGR of 4.9% with ROE of 17.8% over last 3 years. The company has doubled its revenue within last 5 years, last 12 months revenue is above 400 crores whereas market capital of the company is 268 crores.

ix) As of Dec'17, promoter's shareholding in the company is 60.81%, promoters have reduced their stake in the company by ~14% i.e. from 75% to 60.81% in last 5 quarters without any negative impact on share price which indicates that some big investors might bought stake from promoters. Promoters have not pledged any shares. Institution shareholding in the company is low at 1.04%.

x) Singer India is paying regular dividend since last 5 years. It paid dividend of Rs. 3.50 in July 2017 (before stock split) for FY2016-17. The company has been maintaining a healthy dividend payout of 44.68%. The dividend yield at current market price is at 1.41%.

xi) As per our estimates, Singer India can deliver PAT of 12.9 crores in FY18-19 with annualized EPS of Rs. 2.40. At current price of 49.95, stock is available at forward P/E multiple of 20.8X based on FY18-19 earnings. Company's valuation looks reasonable

considering robust growth outlook of home / kitchen appliance in domestic market in medium to long term.

xii) On equity of Rs. 10.74 crore, the estimated annualized EPS for FY18-19 works out to Rs. 2.40 and the Book Value per share is Rs. 10.08. At current market price of Rs. 49.95, stock price to book value is 4.95.

Due to slow growth of the sewing machine industry, diversification into the appliances category by the company to leverage its brand Singer was a move in right direction. With objective to grow revenue contribution from home appliances business from ~23% to 50% over next 4 to 5 years is expected to augur well for the company. Moreover, the company is largely operating through outsourcing model without incurring any major capex and continue to remain debt free. Considering favourable growth outlook for home appliances market in India, expected increase in market share of the company from the unorganized market with implementation of GST and company's strong brand equity with global presence, Saral Gyan team recommends **"Buy"** on **Singer India Ltd** at current market price of Rs. 49.95 for target of Rs. 95 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of 49.95
- 30% at price range of 38 - 42 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

Kindly do not share our stock recommendation / research reports over email or any other communication medium which shall directly or indirectly affect the interest of the company.

Wish you happy & safe investing!

Regards,

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- a. Buy recommendation: This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- b. Hold recommendation: This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- c. Buy at lower price: This means that the investor should wait