

26th December 2023

D-Link India Limited – BUY

CMP : Rs. 330
Target Price : Rs. 430
Upside : 25%
Stop Loss : Rs. 290 (Closing basis)

Investment Thesis

- D-Link is the market leader in switches and wireless local area network (WLAN) products with a market share of 30% and 40% respectively.
- D-Link has continually strived to diversify its product offerings and thereby reduce its dependence on its parent, D-Link Corporation (Taiwan), which currently accounts for around 20% of the company's sales compared to about 70% in FY14
- D-Link maintains healthy liquidity position, as reflected in cash and equivalent of Rs 110 crore as on March 31, 2023. Absence of debt with no major capital expenditure (capex) provides enough financial flexibility to absorb any business shocks.
- Its FY23 operating performance was strong, driven by healthy growth in volume sales and improved price realisation. The company benefitted from increased demand in networking products, driven by shift to work-from-office and easing logistics. Increase in operating profitability was driven by improved realisations amid moderating raw material prices
- India's real estate market witnessed record sales in 2023, with Q3FY24 showing highest number of housing units sold in a decade. India's residential real estate market is expected to grow from USD 182 billion in 2023 to USD 550 billion by 2028 at a CAGR of 24.77%.
- The Indian smarthome market is experiencing explosive growth, driven by a confluence of factors like increasing disposable income, urbanization, growing tech adoption, and the government's push towards digitalization. The market was estimated to reach a value of \$5.6 billion in 2023 with a projected CAGR of 10.31% until 2028. D-Link can benefit from this demand as it is developing products that makes people able to connect their homes and devices.
- As of 2023, estimates suggest around 35-40% of the rural population in India has internet access, compared to over 70% in urban areas. Through Bharatnet initiative, the government aims to connect all of India's villages with fiber optic cables by 2025. D-Link can benefit from this demand by providing affordable networking solutions and partnering with service providers.

Financials

- D-Link's revenues increased at a CAGR of 12.40% over four years. Operating and net profit have increased at a CAGR of 28.64% and 25.20%, respectively, over the same period.
- The main product launched in FY23 are cloud switches, 2.5Gbps smart switches, enhanced enterprise integrated wireless solutions; EAGLE PRO AI Wi-Fi Mesh routers, bridges, and access points; multifunctional wireless broadband 4G/5G routers and developed Artificial Intelligence of Things (AIoT) applications in various industries; high-resolution two-way IP cameras for real-time voice chat, peripheral devices related to smart homes, and cloud network management platforms.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	740	727	918	1,181	1,289
EBITDA (Rs in Crs)	42	42	56	115	123
Adj. PAT (Rs in Crs)	35	31	42	86	91
Adj. EPS (Rs.)	9.92	8.83	11.91	24.32	25.81
PE Multiple (x)	6.13	11.90	11.72	9.61	16.5
RoE (%)	14.76	11.77	13.97	22.82	20.5

Stock Data

Market Cap (Rs. Crs)	1166
Market Cap (\$ Mn)	145
Shares O/S (in Mn)	35.50
Avg. Volume (3 month)	2,17,357
52-Week Range (Rs.)	365 / 172

Shareholding Pattern

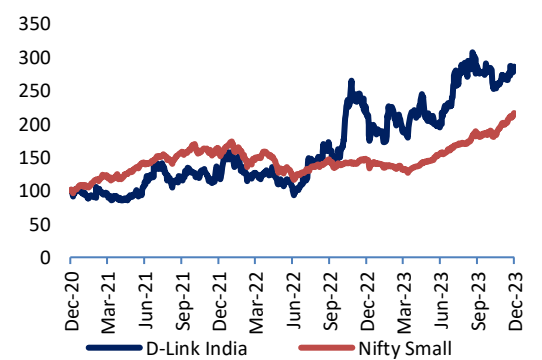
Promoters	51.02 %
FII's	0.34 %
Institutions	0.13 %
Others (incl. body corporate)	48.51 %

Key Ratios

Div Yield	1.5%
TTM PE	12.8x
ROE	25.4 %
TTM EPS (Rs.)	25.5 /-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	4.4	46.2	30.9
NIFTYSMALL	-3.5	6.3	-16.8



- In Q2FY24, D-Link reported revenue and net profit of Rs.308Cr and Rs24Cr, up 4.76% YoY and 4.34% YoY, respectively.

Key Business Highlights

- D-Link (India) Limited markets and distributes D-Link branded networking products for consumers, small businesses, medium to large-sized enterprises, and service providers in India. It has presence across 100 countries. It is one of the largest networking companies in India
- Incorporated in 2008, D-Link is a step-down subsidiary of D-Link Corporation of Taiwan. The company markets networking products of the parent and procures from third-party vendors.
- The product profile comprises network switches, wireless local area networks, routers, modems, storage devices, copper and fibre cables and cameras. In 2010, D-Link began marketing structured cabling products procured from third-party vendors.
- The company introduced a series of high-end products for its enterprise business, including unmanaged long-term power over ethernet (PoE)/PoE plus switches; new generation layer 3 stackable managed switches with advance hardware and software enhancements for better performance, flexibility and ease of management; and industrial grade switches.
- It has a robust distribution structure of National Distributors, Business Distributors, and over 15,000+ resellers reaching out to customers present across the country
- D-Link has invested in state-of-the-art support infrastructure for both consumers and enterprises businesses, which includes 10 D-Link-owned service centres with more than 50 experts in tier 1 cities, over 23 partner service centres with more than 40 experts in tier 2 / tier 3 cities, partner collection points in more than 105 cities and logistical support in over 190 cities
- In January 2014, D-Link acquired Team F1, a company that specialises in providing network and security software for embedded devices. The consideration for the acquisition was in the form of equity shares of D-Link, which resulted in the equity stake of D-Link Corporation in D-Link reducing to 51% from 60%.

Valuation

Because of aforementioned factors, D-Link India is a strong contender in the enterprise networking market. Its focus on value, product variety, and technical expertise positions them well for future growth. D-Link is trading at P/E of 12.8 vs industry PE of 38, which suggests a significant discount. We forecast company's revenues will grow atleast 10% every year and net profit margin will be maintained at 7%. Hence, it can report a revenue and net profit of Rs.1,300Cr and Rs91 Crs for the whole of FY24. Considering a P/E of 16x, the expected market capitalization comes to Rs.1,466Cr.

Therefore, in light of above, we ascribe a **BUY** rating to D-Link (India) Ltd (DLINKINDIA) with a **target price of Rs. 430**, translating to an **upside of ~25%**.

Risk & Concern

- The networking industry's residential and small-to medium-sized business segments are where D-Link mostly operates; these markets are less profitable than the institutional sales segment, where Cisco dominates. Commoditized products and fierce rivalry limit profitability in the retail sector.
- The primary component used to make cables, copper, is an internationally traded commodity in open markets, which causes price volatility. Currency changes also affect profitability because the company imports around 30% of the goods it sells. Currency exchange rates and raw material prices will continue to have an impact on the operating margin.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

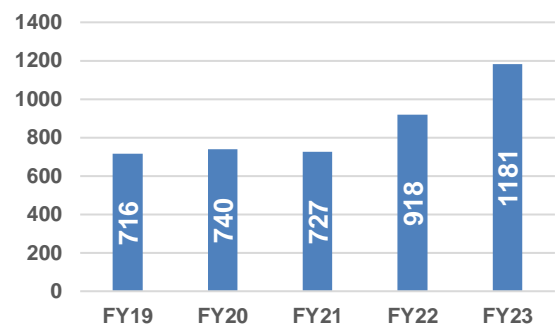


Figure 2: EBITDA & EBITDA margin trend

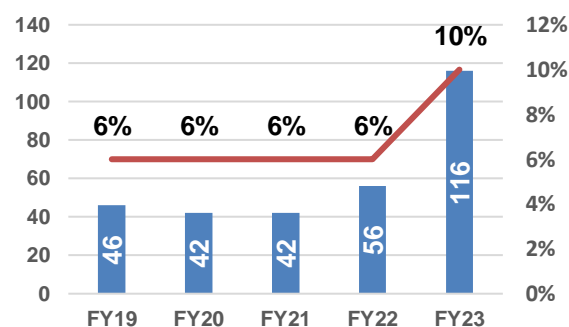


Figure 3: PAT & PAT margin trend

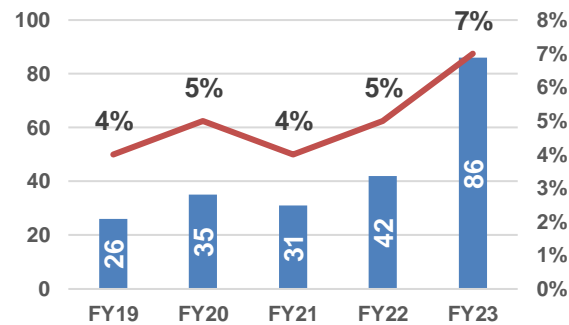
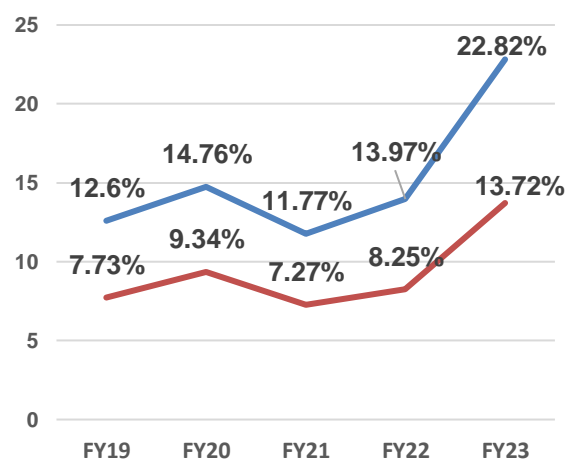


Figure 4: ROE & ROA trend.



Name
Pratik Chothani

Designation
Research Analyst

Disclosure: M/s. Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. M/s. Bonanza Portfolio Ltd has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. The Analysts engaged in preparation of this Report or his/her relative: - (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report. The Analysts engaged in preparation of this Report:- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

M/s. Bonanza Portfolio Ltd is a registered Research Analyst under the regulation of SEBI, the year 2014. The Regn No. INH100001666 and research analyst engaged in preparing reports is qualified as per the regulation's provision.

Disclaimer: This research report has been published by M/s. Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of M/s. Bonanza portfolio Ltd shall be liable. Research report may differ between M/s. Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the Subject Company or third party in connection with the research report.

M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

BSE /NSE/MCX : | CASH | DERIVATIVE | CURRENCY DERIVATIVE | COMMODITY SEGMENT |

| CDSL: | 120 33500 | NSDL: | IN 301477 | | PMS: INP 000000985 | AMFI: ARN -0186