

# Smartlink Network Systems LTD.

(NSE : SMARTLINK) (BSE: 532419)

Date : 7-5-2018



**CMP : 112.35**

**Buy**

Smartlink Network Systems is pioneers in brining IT Networking to India. It was first company to start local manufacturing of IT Networking Products in India. It has excellent service & support network across India. Management has over two decades of experience in Manufacturing, Sales & Marketing in the IT Industry. It has strong pan-India network of regional and national distributors. The Company has a robust product portfolio and a nationwide reach through its network of national and regional distributors, resellers and system integrators. The Company's business has been restructured into three wholly owned subsidiaries, each with a strong focus in their line of business. 1) DIGISOL Systems: The Company is engaged in marketing of networking products within the domain of Converged Communications Solutions under the brand name DIGISOL. 2) Synegra EMS: The electronics manufacturing Company with its own state-of-the-art manufacturing facilities committed to implementing the government's "Make in India" mandate. 3) Telesmart SCS: The Structured Cabling products manufacturing Company with its own large scale state-of-the art manufacturing facilities committed to implementing the government's Make in India mandate.

## Strength

DIGISOL is well on its way to being a leading player in the SME market, which remains focus area of Smartlink. DIGISOL offers a wide range of SME products, and constantly enhance and strengthen spread of solutions, based on a close understanding of evolving needs within this segment. DIGISOL SME products have the key attributes of performance, scalability, reliability and ecofriendliness. It's offerings span the entire gamut of end-to-end networking solutions, including unmanaged, web-managed and managed switches, enterprise outdoor and managed wireless, broadband routing, converged communication. This kind of unique and customized services make Smartlink to be standout player compared to others.

## Opportunity

India ranks among the top five countries in terms of digitalization maturity as per Accenture's Platform Readiness Index, and is expected to be among the top countries with the opportunity to grow and scale up digital platforms by 2020. Social, Mobility, Analytics and Cloud (SMAC) are collectively expected to offer a US\$ 1 trillion opportunity. Cloud represents the largest opportunity under SMAC, increasing at a CAGR of approximately 30 per cent to around US\$ 650-700 billion by 2020. Social media is the second most lucrative segment for IT firms, offering a US\$ 250 billion market opportunity by 2020. The Indian e-commerce segment is US\$ 12 billion in size and is witnessing strong growth and thereby offers another attractive avenue for IT companies to develop products and services to cater to the high growth consumer segment.

## Industry Outlook

According to International Data Corporation the Ethernet Switch market witnessed a year-on-year growth of 21% in vendor Revenue and stood at \$ 131.23 million. The

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## Financial Snapshot: (Standalone)

INR Cr.	Q3FY18	Q2FY18	Q3FY17
Total Operation Income	4.39	4.75	3.05
Operating PAT	3.44	3.41	0.09
PAT	3.46	2.62	1.41

## Financial Snapshot: (Consolidated)

INR Cr.	Q3FY18	Q2FY18	Q3FY17
Total Operation Income	24.56	29.05	23.05
Operating PAT	2.85	2.43	-3.26
PAT	2.33	0.98	-6

Router market witnessed a year-on-year decline of 4% and stood at USD 69.2 million, in terms of vendor revenue. Increased spending from the enterprise segment due to technology refreshes drove the overall LAN market in 2016. There was a significant increase in uptake of L3 and ADC switches in both the enterprise and service provider segments in 2016. Investments in the government, education, telecom, professional services and BFSI are the key drivers for growth. The Router market was driven mainly by investments from the service providers for 4G rollouts and technology refreshes in 2016. Increased uptake of high-end router from the service provider segment and the enterprise segment drove the market in 2016. With the evolving network environment and the huge amount of data available, adoption of advance analytics in this area is becoming main stream. This will enable efficient network management for improved performance. Also in 2016, there was an increased uptake of SDN deployments and NFV POCs.

## Financial Highlights

Smartlink has a book value of Rs. 142.34 implying P/B of 0.8x. It's market cap is only Rs. 253 crs with equity base just 4.51 crs shares. Promoters are holding ~75% stake, making it free float quite low. Smartlink is a debt free company with continuing returning money to shareholders through dividend or buying back of shares. The board of directors of Smartlink Network Systems has approved a buyback proposal not exceeding 56 lakh equity shares (being 24.83 per cent of the total paid-up equity share capital of the company) at Rs. 120 a share for an aggregate amount of Rs. 67.20 crore. A record date for determining the entitlement and the names of the equity shareholders to be eligible to participate in the proposed buyback is 17th May.

It has posted very good set of nos led by operational performance. In Q3FY18 it has posted profit of Rs. 3.46 crs vs Rs. 1.41 crs. It's 9MFY18 PAT was Rs. 8.82 crs vs Rs. 4.47 crs YoY. FY17 was PAT was just Rs. 5.17 crs, which is way higher in 9MFY18! Third quarter also marks a turnaround quarter for Smartlink as it has arrested loss of previous quarters on consolidated basis and post PAT of Rs.2.33 crs. Post buyback, equity base will again shrink, making it more attractive for long term investors. Looking at past financial record and management's credibility we believe this stock is worth of Rs. 150. Investors can BUY at current price.

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