June 14, 2017

Rating matrix

Rating	:	Buy
Target	:	₹ 375
Target Period	:	12-18 months
Potential Upside	:	20%

What's changed?

Target	Changed from ₹ 300 to ₹ 375
EPS FY18E	Changed from ₹ 20.0 to ₹ 20.4
EPS FY19E	Intorduced at ₹ 25.0
Rating	Unchanged

Key financials

₹ crore	FY16	FY17	FY18E	FY19E
Net Sales	133.0	145.2	167.0	192.9
EBITDA	35.5	38.3	44.9	52.8
Net Profit	26.4	26.1	32.0	39.1
EPS (₹)	16.9	16.6	20.4	25.0

Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	18.5	18.7	15.3	12.5
Target P/E	22.2	22.5	18.4	15.0
EV / EBITDA	13.9	12.9	10.7	8.9
P/BV	4.0	3.6	3.1	2.7
RoNW	20.2	19.1	20.6	21.8
RoCE	23.6	22.3	26.1	29.7
ROIC	26.5	25.0	27.5	30.0

Stock data

Stock Data	
Market Capitalization	₹ 489 crore
Total Debt (FY17)	₹ 15 crore
Cash and Cash Equivalent (FY17)	₹ 12 crore
EV	₹ 492 crore
52 week H/L	328 / 225
Equity Capital	15.7
Face Value	₹ 10
MF Holding (%)	1.1
FII Holding (%)	9.9

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Control Print (CONPRI)

₹ 312

Bullishness reloaded; well poised to gain...

- Control Print (CPL) reported a robust Q4FY17 performance, with net sales for the quarter coming in at ₹ 45.8 crore, up 33% YoY
- EBITDA in Q4FY17 was at ₹ 13.0 crore with corresponding EBITDA margins at 28.0%. PAT in Q4FY17 was at ₹ 8.5 crore, up 18.6% YoY
- For full year FY17, net sales were at ₹ 145.2 crore, up 9.2% YoY with EBITDA at ₹ 38.3 crore (EBITDA margins at 26.0%) and PAT at ₹ 26.1 crore (EPS at ₹ 16.6/share with dividend per share at ₹ 6)
- The management expects the growth momentum to sustain in Q1FY18 with sales growth rebounding back to the 15-20% growth trajectory in FY17-19E. This, coupled with margin expansion on account of increasing share of consumables will ensure healthy 20%+ CAGR at the PAT level in FY17-19E
- With the commissioning of new printer manufacturing facility in Guwahati (Assam), the capex cycle is behind CPL with potential to double revenues from the existing gross block over FY17-22E

Niche business model, prominent player in oligopolistic market

CPL is a leading coding & marking player domestically with manufacturing capability in printing machines, spare parts & associated consumables (ink). These are required to print essential real time product details like manufacturing date, expiry date, batch number, maximum retail price, etc, on any manufacturing product. It is used across sectors like personal care, food & beverages, pharmaceuticals, construction materials (steel, cement), extruded products (cable, wire, pipes), etc. As of FY17, CPL has a market share of ~18% in the oligopolistic market (valued at ~₹ 900 crore). The market is expected to grow 1.5x GDP growth rate with CPL expected to out-perform with targeted growth rate of ~2x GDP growth. Its key competitors are Videojet (market share ~30%), Domino Printech (~30%) and Markem-Imaje (~22%). CPL realises 50% of its revenues from industrial customers (metal, cables, pipes, cement) with key clients being Tata Steel, UltraTech, Shree Cement, etc. CPL realises the balance 50% of sales from the packaging sector with key clients being HUL, etc.

Margins on the rise; increasing share of consumables drive change

In FY12-16, sales grew at a CAGR of 18.9% while PAT grew at 33.2% CAGR in FY12-16 primarily on the back of 1300 bps expansion in EBITDA margin. Margin expansion in FY12-16 was primarily on account of a change in product mix in favour of consumables, which is a high margin product with growing base of installed printers. Share of consumables in FY12 gross sales was at 49% while the same in FY16 was at 76%. We expect the share of consumables to further increase to ~83% by FY19E, driving the expansion in margins from 26.4% in FY16 to 27.0% by FY19E.

In lucrative opportunity landscape, balance sheet strength to grow!

CPL is present in a lucrative opportunity landscape, which is bound to grow given the stringent legal requirements on display of essential product details, better inventory control & counterfeit prevention. CPL is also focusing on increasing the application of coders and markers domestically and is witnessing good demand traction in new segments like dairy & sugar. CPL also has a sound balance sheet with ~nil debt on its books and robust return ratios (RoE & RoCE in excess of 20%). Going forward, we expect sales and PAT to grow at a CAGR of 15.3% and 22.4%, respectively, over FY17-19E. We value CPL at ₹ 375, i.e. 15x P/E (0.7x PEG) on FY19E EPS of ₹ 25.0/share with a **BUY** rating on the stock. The key risk to our call is elongated working capital cycle and temporary disruption in the value chain on account of implementation of GST.

Revenues mainly consist of manufactured goods, which comprise ~84% (₹ 117 crore) of total sales in FY16, services that comprised ~6% (₹ 8 crore) and traded goods, which constituted the remaining ~10% (₹ 15 crore) in FY16

Printer sales have grown at a CAGR of 8% over FY12-16 to ₹ 27 crore in FY16. Consumables sales have grown at a CAGR of 34% over FY12-16 to ₹ 106 crore in FY16

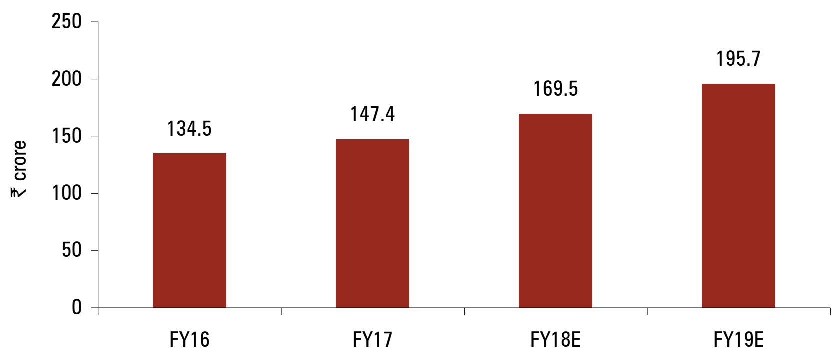
Company Analysis

CPL is a leading coding and marking industry player with manufacturing capability in printing machines (printers), spare parts and associated consumables (ink). CPL started its journey in 1991 by venturing into the inkjet printer market and was primarily a distributor of Videojet printers. In 2008, CPL ended its association with Videojet and started indigenous manufacture of printers in India under its own brand name although in technical collaboration with various international agencies like KBA Metronic (Germany) and Macsa. CPL commenced production at its Nalagarh plant in July 2007. It includes production of inkjet printers, large character printers, thermal transfer over printers and consumables. After attaining a sizeable printer base with assured consumables demand (high margin business), CPL finally turned around its operations in 2013. EBITDA margins improved to ~19%. CPL has recently commissioned a new manufacturing facility in Guwahati wherein it intends to manufacture high margin consumables & new age printers (total capex ~₹ 25 crore).

Robust revenue growth with increasing share of consumables!

Revenue growth has been robust in the past, with sales increasing at a CAGR of 18.9% in FY12-16. Going forward, with adequate capacity amid healthy product demand outlook and a good printer base, we expect CPL to clock revenue growth of 15.3% CAGR in FY17-19E.

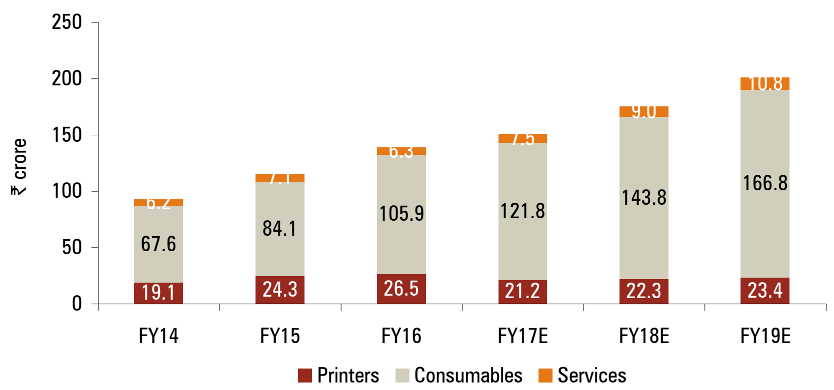
Exhibit 1: Sales trend (₹ crore)



Source: Company, ICICIdirect.com Research

Sales can be broadly classified into three main segments viz. printers (coders and markers), consumables (associated ink) and services.

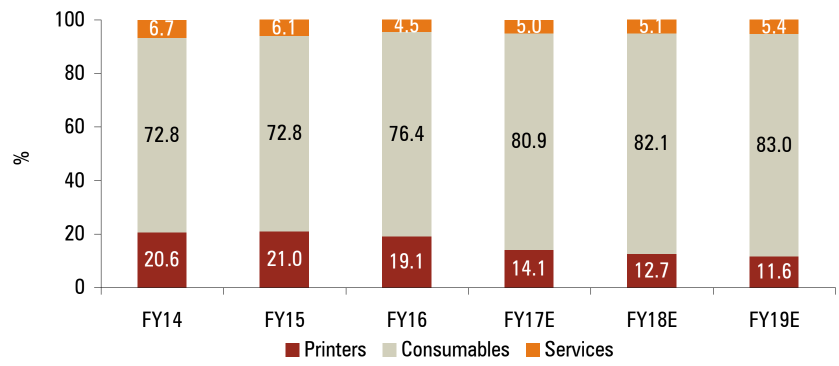
Exhibit 2: Sales break-up – absolute numbers (₹ crore)



Source: Company, ICICIdirect.com Research

In FY16, on a gross basis, printer sales were at ₹ 27 crore, consumables sales at ₹ 105.9 crore while services sales were at ₹ 6.3 crore.

Exhibit 3: Sales break-up – share (%)



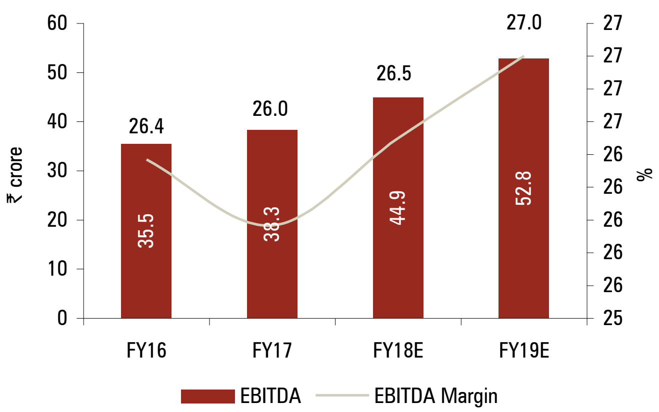
Source: Company, ICICIdirect.com Research

The share of consumables is on the rise with the percentage share increasing from 49% in FY12 to 76% in FY16. This is further expected to improve, going forward, to 83% by FY19E.

Margin expansion to drive EBITDA & PAT, going forward

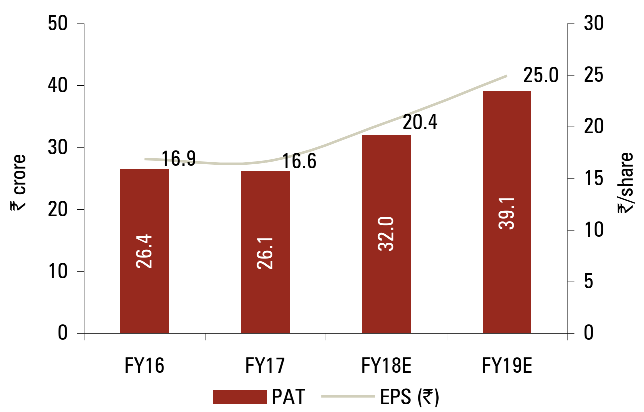
We expect EBITDA to grow at a healthy rate of 17.5% CAGR in FY17-19E on account of an expansion in margins to the tune of 100 bps in FY17-19E. We expect CPL to clock EBITDA margins of 26.5% in FY18E and 27.0% in FY19E vs. 26.0% in FY17. The improvement in EBITDA margins is expected largely on the back of an improving product mix in favour of high margin consumables and operating leverage benefits that kick in as the capacity utilisation of the current asset base increases.

Exhibit 4: EBITDA & EBITDA margins trend



Source: Company, ICICIdirect.com Research

Exhibit 5: PAT & EPS trend



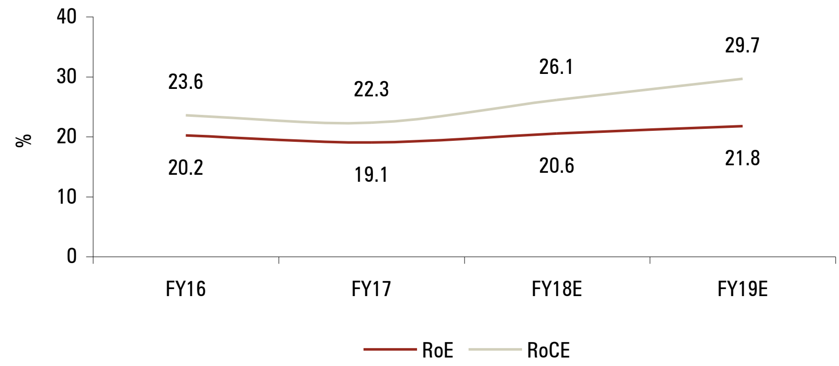
Source: Company, ICICIdirect.com Research

Healthy sales growth i.e. 15.3% CAGR in FY17-19E coupled with improvement in EBITDA margins (100 bps), are expected to drive robust PAT growth. We expect PAT to grow at 22.4% CAGR in FY17-19E to ₹ 39.1 crore in FY19E. We expect EPS in FY18E at ₹ 20.4/share while the same in FY19E is expected at ₹ 25.0/share.

Healthy return ratios profile to sustain

Return ratios were healthy in the past due to robust profitability. Going forward, with a high installed printer base and increasing share of consumables, we expect the trend to sustain. We expect CPL to clock RoE of ~20% in FY17-19E and RoCE of ~25% in FY17-19E.

Exhibit 6: Return ratios profile

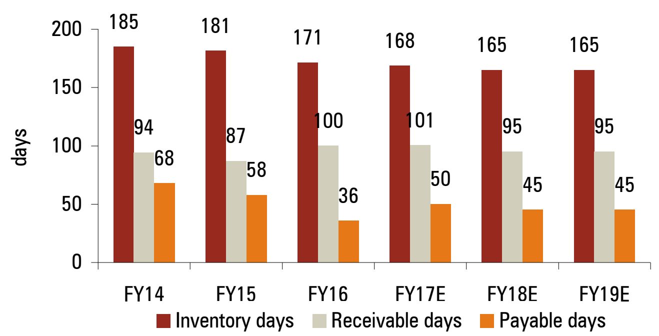


Source: Company, ICICIdirect.com Research

Working capital deteriorates; build in conservative estimates

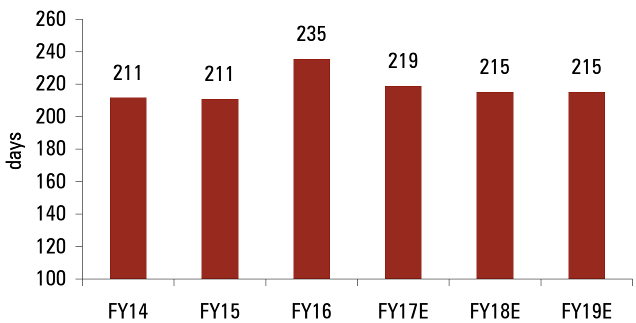
The working capital has marginally improved with NWC days coming in at 219 days as of FY17 vs. 235 days as of FY16. It has largely been on account of an increase in creditor days. Going forward, we have built in conservative NWC days for FY18E and FY19E at ~215 days.

Exhibit 7: Working capital components (days) trend



Source: Company, ICICIdirect.com Research

Exhibit 8: Net working capital days trend

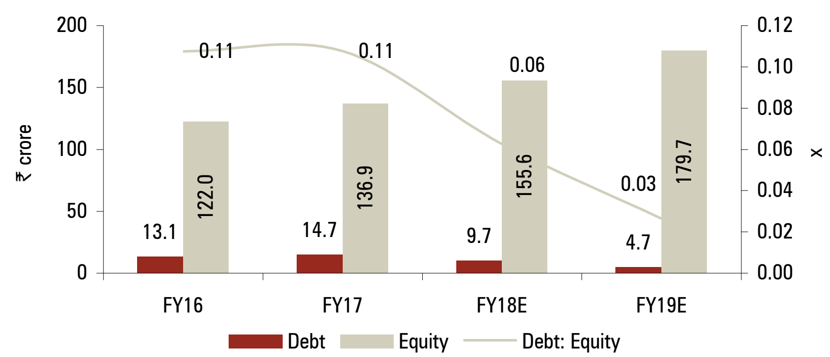


Source: Company, ICICIdirect.com Research

The working capital cycle is elongated largely on account of high inventory days due to indigenous manufacturing of printers domestically.

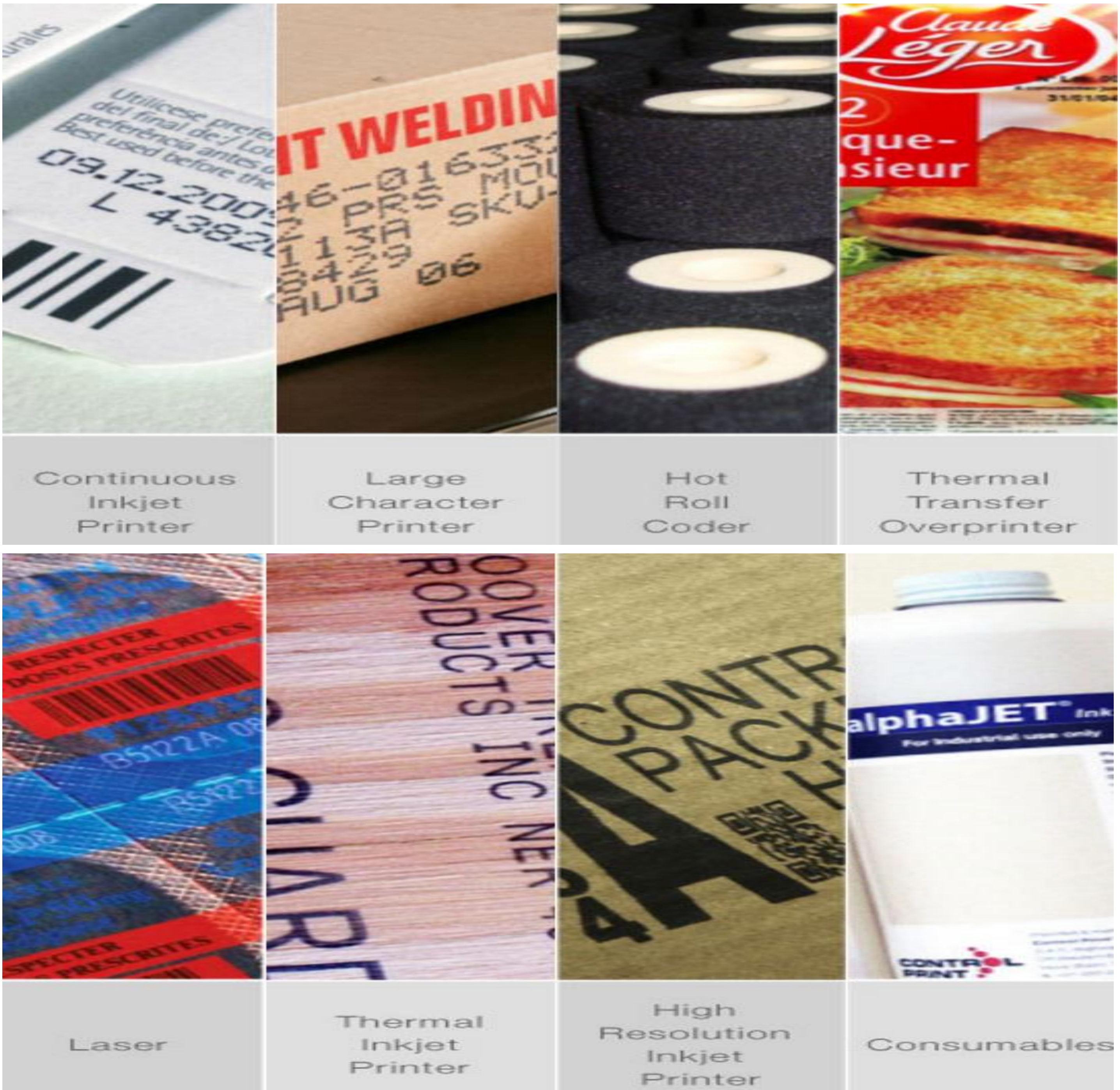
CPL has marginal debt on its books with FY17 gross debt at ₹ 14.7 crore. Going forward, we expect it to moderate on account of increasing profitability and controlled working capital cycle. The debt: equity, however, has remained within limits at ~0.1x in FY16-19E

Exhibit 9: Debt: equity trend



Source: Company, ICICIdirect.com Research

Exhibit 10: Product profile (coding and marking systems – associated applications, consumables)



Source: Company, ICICIdirect.com Research

International Associations

KBA-Metronic

BA-Metronic Aktiengesellschaft is a medium-size technology company, specialising in the development, design, production, marketing and service of printing and coding systems. It is a subsidiary of the €2.7 billion Koenig & Bauer AG (KBA), the world's third largest print equipment manufacturer, and is located in Veitshöchheim in the Lower Franconia region of Germany.

Macsa

For almost a century, it has been a forerunner in innovation in laser technology. Currently, with the most superior technology, Macsa is unarguably the leader in this market.

Outlook and valuation

CPL is present in a lucrative opportunity landscape, which is bound to grow given the stringent legal requirements on display of essential product details, better inventory control and counterfeit prevention. The company is also focusing on increasing the application of coders and markers domestically and is witnessing good demand traction in new segments like dairy & sugar. CPL also has a sound balance sheet with ~nil debt on its books and robust return ratios (RoE & RoCE in excess of 20%). Going forward, we expect sales and PAT to grow at a CAGR of 15.3% and 22.4%, respectively, in FY17-19E. We value CPL at ₹ 375, i.e. 15x P/E (0.7x PEG) on FY19E EPS of ₹ 25.0/share with a **BUY** rating on the stock. The key risk to our call is elongated working capital cycle and temporary disruption in the value chain on account of implementation of GST.

Exhibit 11: What's changed??

Particulars	FY18E			FY19E
	Old	New	% Change	Introduced
Sales	155.9	169.5	8.7	195.7
EBITDA	43.6	44.9	3.0	52.8
EBITDA Margin %	28.0	26.5	-150 bps	27.0
PAT	31.3	32.0	2.2	39.1
EPS	20.0	20.4	2.2	25.0

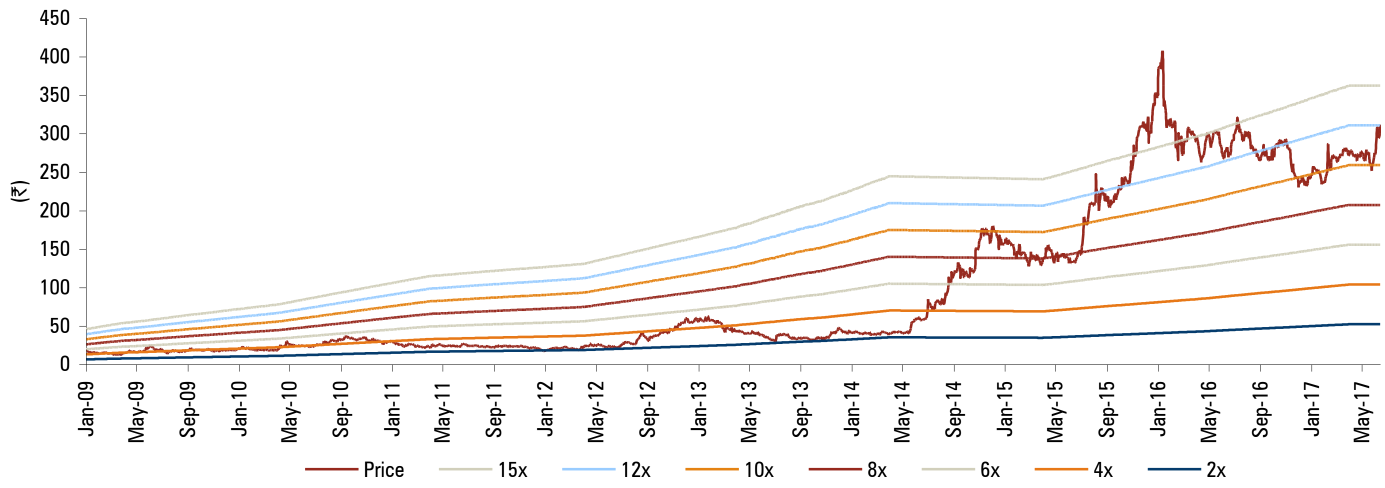
Source: Company, ICICIdirect.com Research

Exhibit 12: Valuation summary

	Sales (₹ cr)	Growth (%)	PAT (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	134.5	19.2	26.4	38.0	18.5	13.9	20.2	23.6
FY17	147.4	9.5	26.1	-1.4	18.7	12.9	19.1	22.3
FY18E	169.5	15.0	32.0	22.6	15.3	10.7	20.6	26.1
FY19E	195.7	15.5	39.1	22.3	12.5	8.9	21.8	29.7

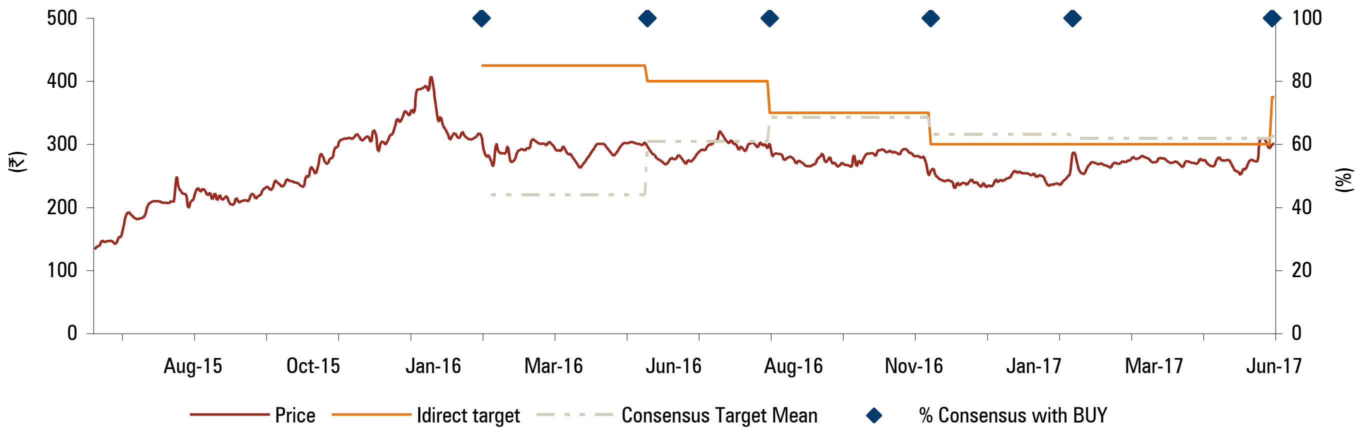
Source: Company, ICICIdirect.com Research

Exhibit 13: Two year forward P/E (Control Print currently trading at 12.5x)



Source: Reuters, ICICIdirect.com Research

Recommendation history vs. consensus estimate



*Source: Bloomberg, Company, ICICIdirect.com Research; *I-direct coverage on Control Print Ltd was initiated on December 2015*

Key events

Date/Year	Event
2007	Control Print commences production at its Nalagarh plant in July. Includes production of inkjet printers, large character printers, thermal transfer over printers and consumables.
2008	CPL ends association with Videojet and starts indigenous manufacturing of printers in India under its own brand name although in technical collaboration with various international agencies like KBA Metronic (Germany) and Macsa
2009	CPL allots 48,000 equity shares of ₹ 10/- each aggregating ₹ 4,80,000/- fully paid-up, to the employees of the company, on exercise of option under employees stock option plan of the company
2010	Reports robust performance in FY10. Sales were at ₹ 47.7 crore, up 26% from the previous year. Net profit of the company increased significantly eight fold times from ₹ 25 lakh in FY09 to ₹ 2 crore in FY10 on the back of a good operational performance
2012	CPL invests additional amount of ₹ 3,70,00,000/- in its 100% subsidiary Liberty Chemicals Pvt Ltd through subscription of 18,50,000 equity shares of ₹ 10/- each at premium of ₹ 10/- against right offer from Liberty Chemicals Pvt Ltd
2013	The company allots 3,75,000 warrants convertible into equity shares of ₹ 10/- each at a premium of ₹ 43.60/- per share to the promoter of the company on a preferential basis
2015	Commences operations in its new plant located at Guwahati. This plant is built on an area of 2.4 acre and shall focus on manufacturing the entire range of consumables for the comprehensive coding and marking solutions product range. The facility will be manufacturing continuous inkjet printer consumables, large character printer consumables, hot quick coder and hot roll coder ink rolls and filters
2016	The board allots one bonus shares for every two shares held. This increases the company's share capital from ₹ 10.4 crore to ₹ 15.7 crore
2017	The company develops Shree Cement as its key clients while losing out on ACC-Ambuja. In the MSME segment, the company is witnessing good traction in the dairy, sugar and fertiliser segment. The company also commissions new printer manufacturing facility in Guwahati (Assam)

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Silver Plastochem Pvt. Ltd.	31-Mar-17	21.85	3.42	0.00
2	Kabra (Shiva)	31-Mar-17	10.04	1.57	0.00
3	Kabra (Pushpa)	31-Mar-17	9.07	1.42	0.00
4	Rahn+Bodmer Co.	31-Mar-17	5.53	0.87	-0.32
5	Kabra (Basant Kumar)	31-Mar-17	4.46	0.70	0.00
6	Joshi (Ritu)	31-Mar-17	3.47	0.54	0.00
7	Sabharwal (Nayana)	31-Mar-17	2.87	0.45	0.00
8	Martytime Trimpex Pvt. Ltd.	31-Mar-17	2.30	0.36	0.00
9	Kabra (Basant Kuamr) HUF	31-Mar-17	2.29	0.36	0.36
10	Grandeur Peak Global Advisors, LLC	31-Mar-17	1.91	0.30	0.11

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	55.8	55.8	55.9	55.9	55.9
FII	9.2	7.7	9.4	11.3	9.9
DII	0.9	0.9	0.9	0.9	1.1
Others	34.1	35.5	33.8	31.8	33.1

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Kabra (Basant Kuamr) HUF	1.50	0.36	Rahn+Bodmer Co.	-1.33	-0.32
Grandeur Peak Global Advisors, LLC	0.44	0.11	Booster Investment Management Limited	-0.15	-0.04

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	133.0	145.2	167.0	192.9
Other Operating Income	1.5	2.2	2.4	2.7
Total Operating Income	134.5	147.4	169.5	195.7
Growth (%)	19.2	9.5	15.0	15.5
Raw Material Expenses	45.4	52.0	59.3	67.5
Employee Expenses	26.3	27.8	31.3	36.2
Other Operating Expense	27.4	29.3	33.9	39.1
Total Operating Expenditure	99.1	109.1	124.5	142.8
EBITDA	35.5	38.3	44.9	52.8
Growth (%)	29.7	7.9	17.3	17.7
Depreciation	2.7	3.8	4.0	4.2
Interest	1.6	1.1	0.9	0.5
Other Income	0.6	0.7	1.0	1.4
PBT	31.8	34.1	41.0	49.5
Exceptional Item	-2.3	0.0	0.0	0.0
Total Tax	7.7	8.0	9.0	10.4
PAT	26.4	26.1	32.0	39.1
Growth (%)	38.0	-1.4	22.6	22.3
EPS (₹)	16.9	16.6	20.4	25.0

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	26.4	26.1	32.0	39.1
Add: Depreciation	2.7	3.8	4.0	4.2
(Inc)/dec in Current Assets	-16.3	-17.0	-12.1	-20.5
Inc/(dec) in CL and Provisions	-1.8	7.1	2.4	5.1
Others	1.6	1.1	0.9	0.5
CF from operating activities	12.7	21.1	27.2	28.4
(Inc)/dec in Investments	2.7	-3.1	-5.0	-5.0
(Inc)/dec in Fixed Assets	-11.9	-8.5	-2.0	-2.0
Others	0.4	0.5	0.0	0.0
CF from investing activities	-8.8	-11.1	-7.0	-7.0
Issue/(Buy back) of Equity	5.8	0.0	0.0	0.0
Inc/(dec) in loan funds	4.9	1.6	-5.0	-5.0
Dividend paid & dividend tax	-8.8	-11.3	-13.2	-15.0
Inc/(dec) in Share Cap	-0.8	0.0	0.0	0.0
Others	-4.1	-1.0	-1.0	-0.5
CF from financing activities	-3.0	-10.7	-19.1	-20.6
Net Cash flow	0.9	-0.7	1.1	0.8
Opening Cash	1.1	2.0	1.3	2.4
Closing Cash	2.0	1.3	2.4	3.2

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	15.7	15.7	15.7	15.7
Reserve and Surplus	106.3	121.2	139.9	164.0
Total Shareholders funds	122.0	136.9	155.6	179.7
Total Debt	13.1	14.7	9.7	4.7
Deferred Tax Liability	2.9	3.4	3.4	3.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	138.0	155.0	168.7	187.8
Assets				
Gross Block	51.0	59.4	64.4	66.4
Less: Acc Depreciation	12.8	16.6	20.6	24.8
Net Block	38.2	42.8	43.8	41.6
Capital WIP	4.9	5.0	2.0	2.0
Total Fixed Assets	43.1	47.8	45.8	43.6
Liquid Investments	7.6	10.7	15.7	20.7
Other Investments	5.5	5.5	5.5	5.5
Inventory	62.4	67.0	75.5	87.2
Debtors	36.4	40.0	43.5	50.2
Loans and Advances	4.5	13.3	13.4	15.4
Other Current Assets	0.0	0.0	0.0	0.0
Cash	2.0	1.3	2.4	3.2
Total Current Assets	105.3	121.6	134.7	156.1
Creditors	13.0	19.9	20.6	23.8
Provisions	10.4	10.7	12.4	14.3
Current Liabilities & Prov	23.4	30.5	32.9	38.1
Net Current Assets	81.9	91.1	101.8	118.0
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	138.0	155.0	168.7	187.8

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	16.9	16.6	20.4	25.0
Cash EPS	18.6	19.0	23.0	27.6
BV	77.8	87.3	99.3	114.6
DPS	4.7	6.0	7.0	8.0
Cash Per Share (Incl Invst)	1.3	0.8	1.5	2.1
Operating Ratios (%)				
EBITDA Margin	26.4	26.0	26.5	27.0
PBT / Total Op. income	23.6	23.1	24.2	25.3
PAT Margin	19.7	17.7	18.9	20.0
Inventory days	171.2	168.4	165.0	165.0
Debtor days	99.9	100.5	95.0	95.0
Creditor days	35.7	50.0	45.0	45.0
Return Ratios (%)				
RoE	20.2	19.1	20.6	21.8
RoCE	23.6	22.3	26.1	29.7
RoIC	26.5	25.0	27.5	30.0
Valuation Ratios (x)				
P/E	18.5	18.7	15.3	12.5
EV / EBITDA	13.9	12.9	10.7	8.9
EV / Net Sales	3.7	3.4	2.9	2.4
Market Cap / Sales	3.7	3.4	2.9	2.5
Price to Book Value	4.0	3.6	3.1	2.7
Solvency Ratios				
Debt/EBITDA	0.4	0.4	0.2	0.1
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	4.4	3.9	4.0	4.0
Quick Ratio	1.7	1.7	1.7	1.7

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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