

## Linc Pen & Plastics (LINPEN)

₹ 232

### In transitory phase, exports take a hit...

- Linc Pen & Plastics (Linc) posted a muted Q1FY18 performance, largely tracking a decline in exports (down 50% YoY) on account of currency appreciation and trade barriers in its key export markets. Domestic sales also came in lower on account of de-stocking ahead of the implementation of new indirect tax regime i.e. GST
- Net sales in Q1FY18 were at ₹ 67.5 crore, down 22.4% YoY
- EBITDA for the quarter came in at ₹ 2.9 crore with corresponding EBITDA margins at 4.2%. PAT in Q1FY18 was at ₹ 0.5 crore
- The management commentary suggests a softer Q2FY18. However, growth may pick up in H2FY18 as repeat orders pour in from new export markets while demand stabilises in the domestic market. The company is hopeful of ending the year marginally positive viz. FY17

### Prominent player, innovation – key driver

Linc is a leading writing instrument player in India with domestic sales accounting for 70% of its sales in FY17. It is among the top five brands (Cello, Reynolds, Luxor, Linc, Flair) with a market share of ~10% of the organised segment (total industry ~₹ 3450 crore, organised segment ~₹ 2600 crore). It is particularly strong in East, North East & Northern India. *Glycer* (MRP: ₹ 7/unit) is the largest selling brand of Linc with new product innovation being Linc Twin (MRP: ₹ 10/unit) & Linc Touch (MRP: ₹ 20/unit). It has been continuously innovating across the years with five to six new product launches due in CY17E, thereby ensuring continuity in operations & climbing up the premiumisation ladder, going forward.

### Impressive expansion commissioned; volume led growth to follow

As of FY17, Linc had a capacity to manufacture 76 crore pens annually and was operating at 90%+ capacity utilisations levels. Sensing the capacity constraints, it has set up a greenfield project in Gujarat to cater to its export markets. The said plant has a capacity of 15 crore pens annually and is intended to clock ~12% EBITDA margins. The peak turnover from the facility will be ~₹ 60 crore with intended RoCE of ~20% on a total capex spend of ~₹ 26 crore. Linc commissioned the said facility in July 2017. This should result in sustainable volume led growth, going forward. We expect pen sales volume to grow at a CAGR of 4.9% over FY17-19E to 83 crore units in FY19E (75 crore units in FY17). Consequent pen sales are expected to grow at a CAGR of 7.4% in FY17-19E to ₹ 338 crore in FY19E (₹ 294 crore in FY17).

### Proven pedigree; muted growth trajectory; downgrade to HOLD

Linc is a prominent writing instrument player domestically with good brand recall and is a trusted name in the market place. The company is also the sole distributor of *Uniball* brand of pens by Mitsubishi Pencil Company (Japan), which, in turn, holds ~13.5% stake in Linc. Linc also has a healthy balance sheet with debt-equity at 0.4x as of FY17. It has a controlled working capital cycle with net working capital days at ~90 days. Linc is also enthused by the implementation of GST as the GST rate of 12% on its product profile. This makes it neutral for the company's operations whereas it will provide a level playing field against its unorganised segment competitors. Going forward, however, the growth trajectory is expected to be muted amid increased digital penetration domestically and headwinds witnessed in export markets. Therefore, we revise downward our growth assumptions and now expect sales to grow at a CAGR of 5.3% over FY17-19E with corresponding PAT CAGR of 11.1% CAGR over FY17-19E. We value Linc at ₹ 245 i.e. 17x P/E on FY19E EPS of ₹ 14.3. We assign a **HOLD** rating to the stock.

Rating matrix	
Rating	: Hold
Target Price	: ₹ 245
Target Period	: 12 months
Potential Upside	: 5%

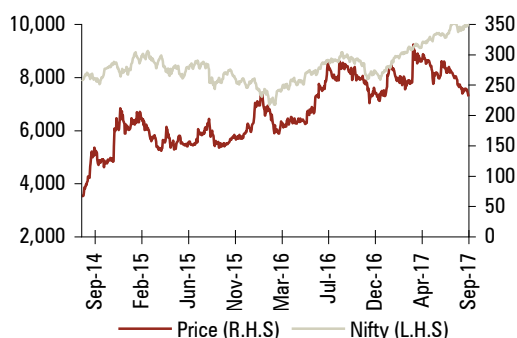
What's changed?	
Target	Unchanged
EPS FY18E	Changed from ₹ 15.1 to ₹ 10.8
EPS FY19E	Changed from ₹ 18.1 to ₹ 14.3
Rating	Unchanged

Key financials				
₹ crore	FY16	FY17	FY18E	FY19E
Total Op. Income	344.1	360.9	374.9	400.2
EBITDA	31.4	33.5	34.1	40.0
Net Profit	18.3	17.2	16.0	21.2
EPS	12.3	11.6	10.8	14.3

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	18.8	20.0	21.5	16.2
Target P/E	19.7	21.0	22.6	17.0
EV / EBITDA	11.9	11.8	11.2	9.0
P/BV	3.4	2.9	2.8	2.5
RoNW	18.1	14.5	13.0	15.6
RoCE	15.8	11.6	12.4	17.5
ROIC	19.2	15.8	15.8	20.1

Stock data	
Stock Data	₹ crore
Market Capitalization	343.0
Total Debt (FY17)	50.8
Cash and Cash Equivalent (FY17)	0.2
Enterprise Value	394
52 week H/L	338 / 216
Equity Capital	14.8
Face Value	₹ 10
MF Holding (%)	1.9
FII Holding (%)	0.2

### Price Performance



### Research Analyst

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## Company Analysis

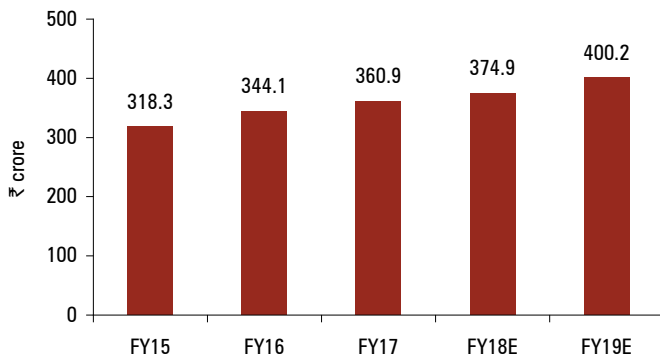
Linc was established in 1994 and is a leading writing instrument player with a product basket of over 200 products; providing pens (ball point & gel), pencils, sketch pens, office stationary, etc. In 2000, it launched gel pen "Hi-School" for ₹ 10/unit (prevailing price for gel pens was ₹ 15-20/unit). In 2002, Linc launched *Smart*, an oil based gel pen for ₹ 5. In 2003, it entered the global market through private label supplies to Wal-Mart. In 2008, Linc roped in Bollywood superstar Shah Rukh Khan to endorse its products while in 2011 it roped in Katrina Kaif as the brand ambassador for promoting *Uniball* products in India. In 2009, the company commenced production from its new manufacturing facility at Falta SEZ (near Kolkata). In 2012, Linc entered into a capital alliance with Mitsubishi Pencil Company (Japan) wherein Mitsubishi picked up a 13.5% stake (20 lakh shares) in the company (@ ₹ 100/share).

It is currently being headed by Deepak Jalan (Managing Director) and NK Dujari (Chief Financial Officer). In FY17, Linc paid a dividend of ₹ 3/ share

### Revenue to grow at a CAGR of 5.3% over FY17-19E!

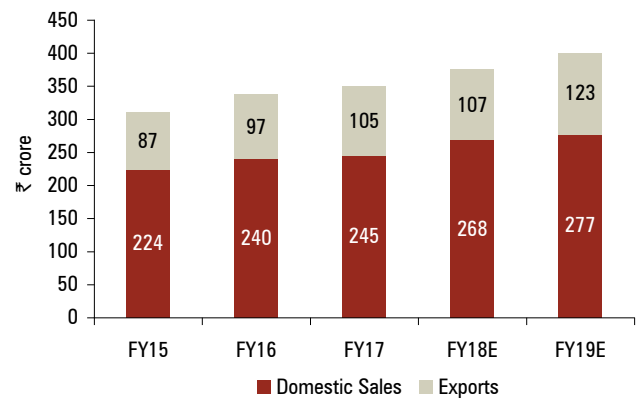
On the back of commissioning of the greenfield plant in Gujarat, we expect volume led growth to sustain going forward. We expect total operating income to grow at a CAGR of 5.3% over FY17-19E.

**Exhibit 1: Total operating income trend**



Source: Company, ICICIdirect.com Research

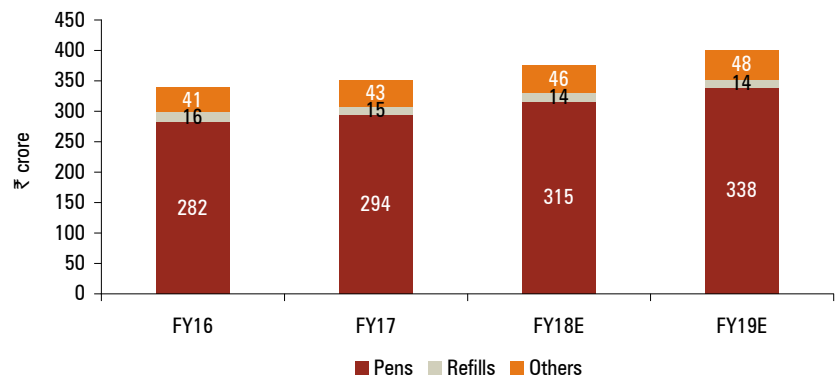
**Exhibit 2: Domestic & Export sales trend**



Source: Company, ICICIdirect.com Research

Exports constitute a good ~30% of total sales, which are expected to outperform (8.3% CAGR in FY17-19E) total sales growth due to lucrative opportunities in the export market.

**Exhibit 3: Sales break-up**



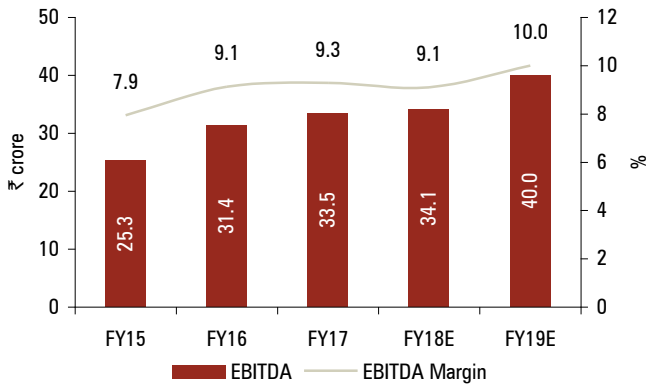
Source: Company, ICICIdirect.com Research

Among sales constituents, pen sales are expected to be the main revenue driver amid the changing consumer trend of purchasing a new pen unit rather than opting for a refill. Henceforth, we build in a marginal de-growth in refill sales, going forward, over FY17-19E.

### EBITDA, PAT to witness robust growth tracking margin expansion

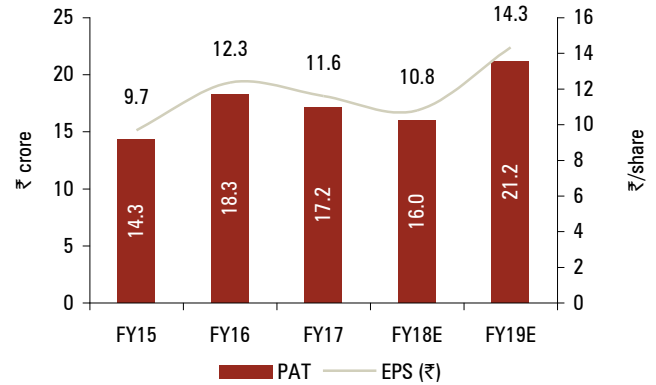
We expect EBITDA to grow at a CAGR of 9.3% over FY17-19E to ₹ 40.0 crore in FY19E (₹ 33.5 crore in FY17). We build in 70 bps improvement in EBITDA margins over the aforesaid period largely incorporating efficiencies from the new greenfield capacity, Linc's focus on producing more value added products and calibrated branding & promotional expenses. We expect Linc to report EBITDA margins of 10.0% in FY19E vs. 9.3% in FY17

**Exhibit 4: EBITDA & EBITDA margins trend**



Source: Company, ICICIdirect.com Research

**Exhibit 5: PAT & EPS trend**



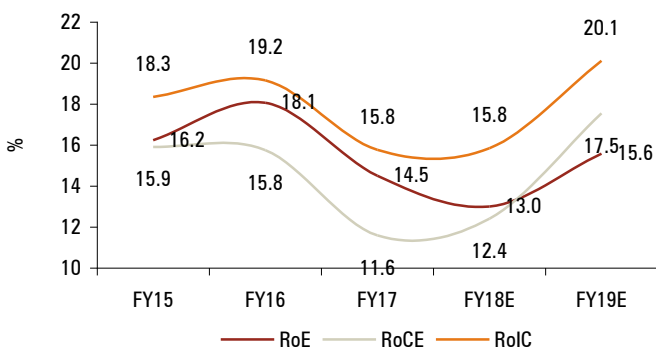
Source: Company, ICICIdirect.com Research

PAT is expected to grow at a CAGR of 11.1% over FY17-19E to ₹ 21.2 crore in FY19E (₹ 17.2 crore in FY18E) with corresponding EPS expected at ₹ 14.3/share in FY19E (₹ 11.6/share in FY17).

### Healthy return ratios & controlled working capital cycle

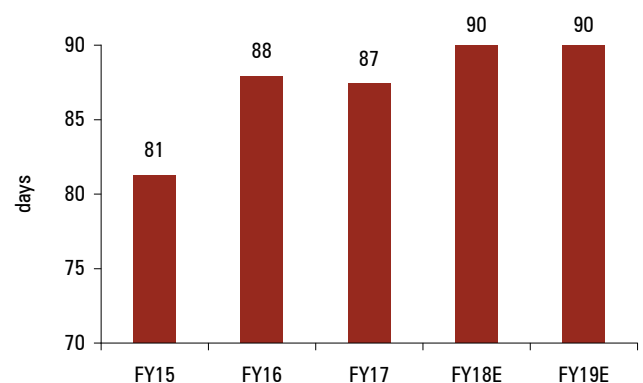
Return ratios are healthy with core RoICs in the range of ~16-20%. Post muted profitability in FY17-18E, the same is expected to perk up to ~20% levels by FY19E. The five year average RoE & RoCE in FY15-19E was at 16% & 15%, respectively, thereby offering a good margin of safety.

**Exhibit 6: Return ratios profile**



Source: Company, ICICIdirect.com Research

**Exhibit 7: Net working capital days trend**



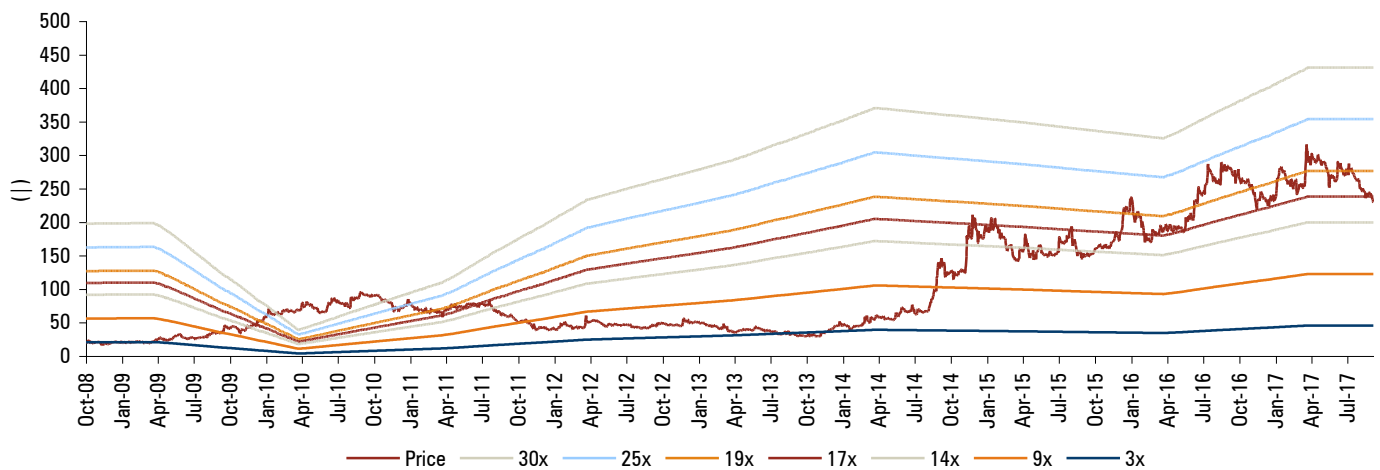
Source: Company, ICICIdirect.com Research

The working capital cycle is also controlled by net working capital days (NWC) at ~90 days. We have also been conservative in our estimates with NWC days expected at 90 days in FY18E and F19E.

## Outlook and valuation

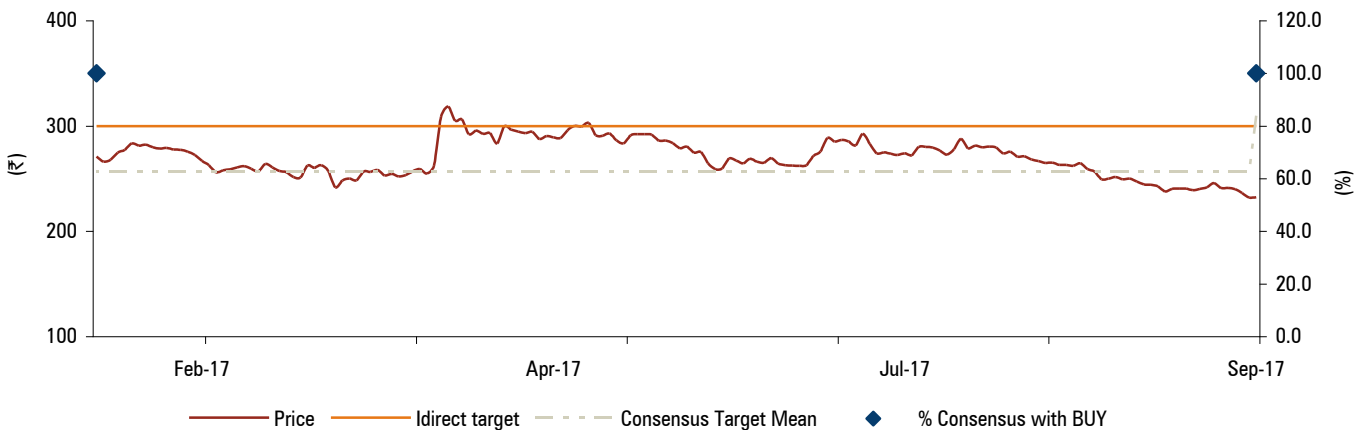
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**Exhibit 8: Two year forward P/E (Kanpur Plastipack currently trading at 16.2x)**



Source: Reuters, ICICIdirect.com Research

### Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research; \*I-direct coverage on Linc Pen & Plastics was initiated on Jan 2017

Key events	
Date/Year	Event
1994	Linc was established in the year 1994
2000	Linc launched gel pen "Hi-School" for ₹ 10/unit (prevailing price for gel pens was ₹ 15-20/unit). Innovative product vs. market offering
2002	Linc launched Smart, an oil based gel pen for ₹ 5
2003	It entered the global market through private label supplies to Wal-Mart
2008	Linc roped in Bollywood superstar Shah Rukh Khan to endorse its products
2009	The company commenced production from its new manufacturing facility at Falta SEZ (near Kolkata)
2012	Linc entered into a capital alliance with Mitsubishi Pencil Company (Japan) wherein Mitsubishi picked up a 13.5% stake (20 lakh shares) in the company (@ ₹ 100/share)
2016	Linc has an installed capacity to manufacture 76 crore pens annually (FY16). Started executing a greenfield expansion in Gujarat with a capex spend of ~₹ 26 crore and capacity of 15 crore pens
2017	Commenced the greenfield expansion in July 2018. Declares annual FY17 results. Net sales came in at ₹ 350 crore with EBITDA at ₹ 33.5 crore and PAT at ₹ 17.2 crore. Company declared a dividend of ₹ 3/share in FY17

Source: Company, ICICIdirect.com Research

Top 10 Shareholders						Shareholding Pattern					
Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change	(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
1	Jalan (Shobha)	30-Jun-17	13.6	2.0	0.0	Promoter	60.4	60.4	60.5	59.9	59.9
2	Mitsubishi Pencil Co Ltd	30-Jun-17	13.5	2.0	0.0	FII	0.8	1.9	1.9	1.9	1.9
3	Linc Writing Aids Pvt. Ltd.	30-Jun-17	11.3	1.7	0.0	DII	0.1	0.1	0.1	0.1	0.2
4	Jalan (Sarita)	30-Jun-17	8.8	1.3	0.0	Others	38.7	37.6	37.5	38.1	38.0
5	Jalan (Surajmal)	30-Jun-17	6.9	1.0	0.0						
6	Jalan (Aloke)	30-Jun-17	5.2	0.8	0.0						
7	Jalan (Deepak) HUF	30-Jun-17	3.3	0.5	0.0						
8	Jalan (Devanshi)	30-Jun-17	2.4	0.4	0.0						
9	Jalan (Rohit)	30-Jun-17	2.4	0.4	0.0						
10	Jalan (Deepak)	30-Jun-17	2.1	0.3	0.0						

Source: Reuters, ICICIdirect.com Research

Recent Activity					
Buys			Sells		
Investor Name	Value (M)	Shares(M)	Investor Name	Value (M)	Shares(M)
Jalan (Deepak) HUF	0.02	0.01	Dujari (N K)	-0.01	0.00
Jalan (Deepak)	0.01	0.00			
Jalan (Divya)	0.00	0.00			

Source: Reuters, ICICIdirect.com Research

## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Net Sales	337.3	349.7	374.9	400.2	
Other Operating Income	6.8	11.2	0.0	0.0	
<b>Total Operating Income</b>	<b>344.1</b>	<b>360.9</b>	<b>374.9</b>	<b>400.2</b>	
Growth (%)	8.1	4.9	3.9	6.7	
Raw Material Expenses	218.8	231.8	241.5	256.1	
Employee Expenses	18.6	20.8	23.5	24.0	
Other Operating Expense	75.4	74.8	75.9	80.0	
<b>Total Operating Expenditure</b>	<b>312.8</b>	<b>327.4</b>	<b>340.8</b>	<b>360.2</b>	
<b>EBITDA</b>	<b>31.4</b>	<b>33.5</b>	<b>34.1</b>	<b>40.0</b>	
Growth (%)	24.0	6.8	1.8	17.3	
Depreciation	6.0	7.9	8.5	9.4	
Interest	1.5	2.2	3.7	1.6	
Other Income	0.6	0.4	0.1	0.2	
PBT	24.5	23.8	22.1	29.2	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	6.3	6.6	6.1	8.0	
<b>PAT</b>	<b>18.3</b>	<b>17.2</b>	<b>16.0</b>	<b>21.2</b>	
Growth (%)	27.7	-6.1	-7.0	32.7	
EPS (₹)	12.3	11.6	10.8	14.3	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit after Tax	18.3	17.2	16.0	21.2	
Add: Depreciation	6.0	7.9	8.5	9.4	
(Inc)/dec in Current Assets	-26.0	-10.4	-0.8	1.7	
Inc/(dec) in CL and Provisions	10.5	-14.0	8.5	3.0	
Others	1.5	2.2	3.7	1.6	
<b>CF from operating activities</b>	<b>10.2</b>	<b>2.8</b>	<b>35.9</b>	<b>37.0</b>	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-18.9	-21.7	-10.0	-5.0	
Others	0.9	1.2	0.0	0.0	
<b>CF from investing activities</b>	<b>-18.0</b>	<b>-20.5</b>	<b>-10.0</b>	<b>-5.0</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	13.1	19.9	-10.0	-22.5	
Dividend paid & dividend tax	-5.3	-5.3	-6.2	-8.0	
Inc/(dec) in Share Cap	0.1	5.2	-5.3	0.0	
Others	-1.5	-2.2	-3.7	-1.6	
<b>CF from financing activities</b>	<b>6.4</b>	<b>17.6</b>	<b>-25.2</b>	<b>-32.1</b>	
<b>Net Cash flow</b>	<b>-1.4</b>	<b>-0.1</b>	<b>0.7</b>	<b>-0.2</b>	
Opening Cash	1.7	0.3	0.2	0.9	
<b>Closing Cash</b>	<b>0.3</b>	<b>0.2</b>	<b>0.9</b>	<b>0.7</b>	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	14.8	14.8	14.8	14.8	
Reserve and Surplus	86.3	103.5	108.0	121.2	
<b>Total Shareholders funds</b>	<b>101.1</b>	<b>118.3</b>	<b>122.7</b>	<b>135.9</b>	
Total Debt	30.9	50.8	40.8	18.3	
Deferred Tax Liability	2.8	4.0	4.0	4.0	
Minority Interest / Others	0.0	0.0	0.0	0.0	
<b>Total Liabilities</b>	<b>134.8</b>	<b>173.1</b>	<b>167.5</b>	<b>158.2</b>	
<b>Assets</b>					
Gross Block	87.7	99.2	114.7	119.7	
Less: Acc Depreciation	45.7	52.2	60.7	70.0	
Net Block	42.0	47.0	54.0	49.7	
Capital WIP	1.8	10.6	5.0	5.0	
<b>Total Fixed Assets</b>	<b>43.7</b>	<b>57.6</b>	<b>59.0</b>	<b>54.7</b>	
Liquid Investments	0.0	0.0	0.0	0.0	
Other Investments	0.0	0.0	0.0	0.0	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	
Inventory	77.3	78.5	82.2	87.7	
Debtors	47.7	39.9	51.4	54.8	
Loans and Advances	16.2	32.9	18.7	8.0	
Other Current Assets	0.2	0.5	0.4	0.4	
<b>Cash</b>	<b>0.3</b>	<b>0.2</b>	<b>0.9</b>	<b>0.7</b>	
<b>Total Current Assets</b>	<b>141.8</b>	<b>152.1</b>	<b>153.6</b>	<b>151.7</b>	
Creditors	43.8	34.7	41.1	43.9	
Provisions	6.9	2.0	4.1	4.4	
<b>Current Liabilities &amp; Prov</b>	<b>50.7</b>	<b>36.7</b>	<b>45.2</b>	<b>48.2</b>	
<b>Net Current Assets</b>	<b>91.1</b>	<b>115.4</b>	<b>108.4</b>	<b>103.4</b>	
Others Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>134.8</b>	<b>173.1</b>	<b>167.5</b>	<b>158.2</b>	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17	FY18E	FY19E	
<b>Per share data (₹)</b>					
EPS	12.3	11.6	10.8	14.3	
Cash EPS	16.4	17.0	16.6	20.7	
BV	68.4	80.0	83.0	91.9	
DPS	3.0	3.0	3.5	4.5	
Cash Per Share (Incl Invest)	0.2	0.1	0.6	0.5	
<b>Operating Ratios (%)</b>					
EBITDA Margin	9.1	9.3	9.1	10.0	
PBT / Total Op. income	7.1	6.6	5.9	7.3	
PAT Margin	5.3	4.8	4.3	5.3	
Inventory days	83.6	82.0	80.0	80.0	
Debtor days	51.6	41.7	50.0	50.0	
Creditor days	47.4	36.2	40.0	40.0	
Net Working Capital days	87.9	87.4	90.0	90.0	
<b>Return Ratios (%)</b>					
RoE	18.1	14.5	13.0	15.6	
RoCE	15.8	11.6	12.4	17.5	
RoIC	19.2	15.8	15.8	20.1	
<b>Valuation Ratios (x)</b>					
P/E	18.8	20.0	21.5	16.2	
EV / EBITDA	11.9	11.8	11.2	9.0	
EV / Net Sales	1.1	1.1	1.0	0.9	
Market Cap / Sales	1.0	1.0	0.9	0.9	
Price to Book Value	3.4	2.9	2.8	2.5	
<b>Solvency Ratios</b>					
Debt/EBITDA	1.0	1.5	1.2	0.5	
Debt / Equity	0.3	0.4	0.3	0.1	
Current Ratio	2.8	4.1	3.4	3.1	
Quick Ratio	1.3	2.0	1.6	1.3	

Source: Company, ICICIdirect.com Research

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Buy: > 10%/15% for large caps/midcaps, respectively;  
Hold: Up to +/-10%;  
Sell: -10% or more;



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## ANALYST CERTIFICATION

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