

January 16, 2018

Rating matrix	
Rating	: Hold
Target Price	: ₹ 480
Target Period	: 12 months
Potential Upside	: 3%

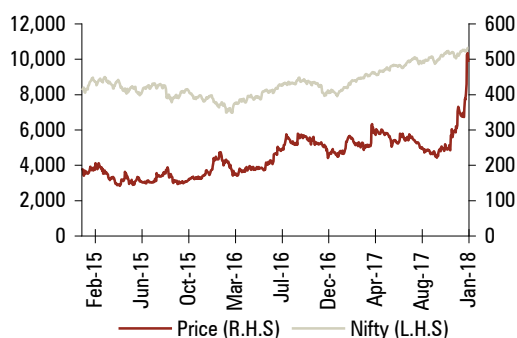
What's changed?	
Target	Changed from ₹ 245 to ₹ 480
EPS FY18E	Changed from ₹ 10.8 to ₹ 7.9
EPS FY19E	Changed from ₹ 14.3 to ₹ 12.0
EPS FY20E	Introduced at ₹ 14.4
Rating	Unchanged

Key financials				
₹ crore	FY17	FY18E	FY19E	FY20E
Total Op. Income	360.9	339.0	384.0	403.8
EBITDA	33.5	28.3	36.5	40.4
Net Profit	17.2	11.7	17.7	21.3
EPS	11.6	7.9	12.0	14.4

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	40.1	58.6	38.9	32.3
Target P/E	41.4	60.4	40.1	33.3
EV / EBITDA	22.0	25.8	19.7	17.4
P/BV	5.8	5.8	5.3	4.8
RoNW	14.5	9.8	13.6	14.9
RoCE	11.6	9.6	13.9	17.4
ROIC	15.8	12.0	16.9	19.5

Stock data	
Stock Data	₹ crore
Market Capitalization	687.5
Total Debt (FY17)	50.8
Cash and Cash Equivalent (FY17)	0.2
Enterprise Value	738
52 week H/L	530 / 220
Equity Capital	14.8
Face Value	₹ 10
MF Holding (%)	1.2
FII Holding (%)	0.0

#### Price Performance



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## Linc Pen & Plastics (LINPEN)

₹ 465

### Scarcity premium to persist, growth to follow

- Linc Pen & Plastics (Linc) witnessed stellar price appreciation in the recent past with the stock up 100% from lows in September 2017. A part of the journey is explained by the scarcity of profitable names in the writing instrument category in the listed space and reference to last M&A activity involving Cello Pens (acquired by BIC Pens, France)
- However, Linc's financial performance has been weak with H1FY18 sales at ₹ 146 crore, down 16% YoY, EBITDA at ₹ 9.9 crore with corresponding EBITDA margins at 6.8%, down 280 bps YoY. PAT in H1FY18 was at ₹ 2.1 crore, down 75% YoY
- Key reasons for the abysmal performance in H1FY18 were; 1) appreciation of rupee; 2) imposition of anti-dumping duties in its key markets across the African continent & consequent steep drop in export sales and 3) transition period involving GST that witnessed a momentary shutdown of the trade channel
- Consequently, FY18E would be a complete washout year for Linc with growth expected to rebound in FY19E-20E. The company has progressively targeted other geographies for a rebound with results expected to flow in from Q4FY18E onwards

#### Prominent player, incremental capacity in place; growth from FY19E

Linc is a leading writing instrument player in India (market share ~10%) with domestic sales accounting for 70% of its sales in FY17. 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 is expected at ~₹ 60 crore with intended RoCE of ~20% on a total capex spend of ~₹ 26 crore. Linc commissioned the said facility in July 2017, which provides the necessary headroom for growth. Post the blip in FY18E, we expect pen sales volume to grow at a CAGR of 9.8% in FY18E-20E to 86 crore units in FY20E (~72 crore units in FY18E). Consequent pen sales are expected to grow at a CAGR of 9.8% in FY18E-20E to ₹ 345 crore in FY20E (₹ 286 crore in FY18E).

#### Balance sheet strength to grow; assign HOLD

Linc 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. The company witnessed some disruption of the trade channel post implementation of GST and is yet to recover fully. However, the presence of a large unorganised segment (~₹ 900 crore i.e. 25% of total market size) in the domestic writing instrument industry and its natural progression towards the organised segment will benefit Linc pen, going forward. On the export front, penetration in new geographies will aid growth in FY18-20E. Linc's stock price had a healthy run up in the recent past. One probable reason for such a steep appreciation may be Mitsubishi Pencil acquiring a majority stake in Linc (already owns 13.5%), on which there is no clarity. However, it makes us now peg the valuation of Linc pen on MCap/sales basis vs. the earlier matrix of P/E ratio. Incorporating the muted H1FY18 performance and rolling over to FY20 numbers, we have revised our estimates. Now, we expect Linc to clock sales and PAT CAGR of 9.1% and 34.7%, respectively, in FY18E-20E. We now value Linc at ₹ 480 i.e. 1.8x MCap/sales on FY19E & 20E average sales of ₹ 394 crore with a **HOLD** rating on the stock.

## Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Net Sales	349.7	339.0	384.0	403.8
Other Operating Income	11.2	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>360.9</b>	<b>339.0</b>	<b>384.0</b>	<b>403.8</b>
Growth (%)	4.9	-6.1	13.3	5.2
Raw Material Expenses	231.8	218.2	245.7	258.4
Employee Expenses	20.8	24.3	26.9	28.3
Other Operating Expense	74.8	68.1	74.9	76.7
<b>Total Operating Expenditure</b>	<b>327.4</b>	<b>310.6</b>	<b>347.5</b>	<b>363.4</b>
<b>EBITDA</b>	<b>33.5</b>	<b>28.3</b>	<b>36.5</b>	<b>40.4</b>
Growth (%)	6.8	-15.4	28.7	10.7
Depreciation	7.9	8.9	9.4	9.8
Interest	2.2	3.9	3.2	2.0
Other Income	0.4	1.1	0.4	0.6
<b>PBT</b>	<b>23.8</b>	<b>16.7</b>	<b>24.4</b>	<b>29.2</b>
Exceptional Item	0.0	0.0	0.0	0.0
<b>Total Tax</b>	<b>6.6</b>	<b>5.0</b>	<b>6.7</b>	<b>7.9</b>
<b>PAT</b>	<b>17.2</b>	<b>11.7</b>	<b>17.7</b>	<b>21.3</b>
Growth (%)	-6.1	-31.5	50.6	20.6
<b>EPS (₹)</b>	<b>11.6</b>	<b>7.9</b>	<b>12.0</b>	<b>14.4</b>

Source: Company, ICICIdirect.com Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Profit after Tax	17.2	11.7	17.7	21.3
Add: Depreciation	7.9	8.9	9.4	9.8
(Inc)/dec in Current Assets	-10.4	7.1	-6.3	-3.8
Inc/(dec) in CL and Provisions	-14.0	-0.9	4.7	2.1
Others	2.2	3.9	3.2	2.0
<b>CF from operating activities</b>	<b>2.8</b>	<b>30.6</b>	<b>28.7</b>	<b>31.5</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-21.7	-10.0	-5.0	-5.0
Others	1.2	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-20.5</b>	<b>-10.0</b>	<b>-5.0</b>	<b>-5.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	19.9	-5.0	-12.5	-16.0
Dividend paid & dividend tax	-5.3	-5.3	-7.1	-8.0
Inc/(dec) in Share Cap	5.2	-5.3	0.0	0.0
Others	-2.2	-3.9	-3.2	-2.0
<b>CF from financing activities</b>	<b>17.6</b>	<b>-19.5</b>	<b>-22.8</b>	<b>-26.0</b>
<b>Net Cash flow</b>	<b>-0.1</b>	<b>1.2</b>	<b>0.9</b>	<b>0.4</b>
Opening Cash	0.3	0.2	1.3	2.3
<b>Closing Cash</b>	<b>0.2</b>	<b>1.3</b>	<b>2.3</b>	<b>2.7</b>

Source: Company, ICICIdirect.com Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
<b>Liabilities</b>				
Equity Capital	14.8	14.8	14.8	14.8
Reserve and Surplus	103.5	104.6	115.2	128.5
<b>Total Shareholders funds</b>	<b>118.3</b>	<b>119.4</b>	<b>130.0</b>	<b>143.3</b>
Total Debt	50.8	45.8	33.3	17.3
Deferred Tax Liability	4.0	4.0	4.0	4.0
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>173.1</b>	<b>169.2</b>	<b>167.3</b>	<b>164.6</b>
<b>Assets</b>				
Gross Block	99.2	114.7	119.7	124.7
Less: Acc Depreciation	52.2	61.0	70.4	80.2
Net Block	47.0	53.7	49.3	44.5
Capital WIP	10.6	5.0	5.0	5.0
<b>Total Fixed Assets</b>	<b>57.6</b>	<b>58.7</b>	<b>54.3</b>	<b>49.5</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	78.5	83.6	89.4	94.0
Debtors	39.9	37.1	42.1	44.2
Loans and Advances	32.9	23.7	19.2	16.2
Other Current Assets	0.5	0.3	0.4	0.4
<b>Cash</b>	<b>0.2</b>	<b>1.3</b>	<b>2.3</b>	<b>2.7</b>
<b>Total Current Assets</b>	<b>152.1</b>	<b>146.1</b>	<b>153.3</b>	<b>157.5</b>
Creditors	34.7	32.5	36.8	38.7
Provisions	2.0	3.3	3.7	3.9
Current Liabilities & Prov	36.7	35.8	40.5	42.6
Net Current Assets	115.4	110.4	112.8	114.9
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>173.1</b>	<b>169.2</b>	<b>167.3</b>	<b>164.7</b>

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
<b>Per share data (₹)</b>				
EPS	11.6	7.9	12.0	14.4
Cash EPS	17.0	13.9	18.3	21.0
BV	80.0	80.8	87.9	96.9
DPS	3.0	3.0	4.0	4.5
Cash Per Share (Incl Invest)	0.1	0.9	1.5	1.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.3	8.4	9.5	10.0
PBT / Total Op. income	6.6	4.9	6.4	7.2
PAT Margin	4.8	3.5	4.6	5.3
Inventory days	82.0	90.0	85.0	85.0
Debtor days	41.7	40.0	40.0	40.0
Creditor days	36.2	35.0	35.0	35.0
Net Working Capital days	87.4	95.0	90.0	90.0
<b>Return Ratios (%)</b>				
RoE	14.5	9.8	13.6	14.9
RoCE	11.6	9.6	13.9	17.4
RoIC	15.8	12.0	16.9	19.5
<b>Valuation Ratios (x)</b>				
P/E	40.1	58.6	38.9	32.3
EV / EBITDA	22.0	25.8	19.7	17.4
EV / Net Sales	2.1	2.2	1.9	1.7
Market Cap / Sales	2.0	2.0	1.8	1.7
Price to Book Value	5.8	5.8	5.3	4.8
<b>Solvency Ratios</b>				
Debt/EBITDA	1.5	1.6	0.9	0.4
Debt / Equity	0.4	0.4	0.3	0.1
Current Ratio	4.1	4.0	3.7	3.6
Quick Ratio	2.0	1.7	1.5	1.4

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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