Linc Pen & Plastics (LINPEN)

₹ 310

Worst behind, growth to rebound...

Rating matrix

Rating	:	Hold
Target Price	:	₹ 330
Target Period	:	12 months
Potential Upside	:	6%

What's changed?

Target	Changed from ₹ 480 to ₹ 330
EPS FY19E	Changed from ₹ 12.0 to ₹ 8.8
EPS FY20E	Changed from ₹ 14.4 to ₹ 10.5
Rating	Unchanged

Key financials

₹ crore	FY17	FY18	FY19E	FY20E
Total Op. Income	360.9	332.0	384.0	403.8
EBITDA	33.5	25.7	34.7	37.8
Net Profit	17.2	7.8	13.1	15.5
EPS	11.6	5.3	8.8	10.5

Valuation summary

	FY17	FY18	FY19E	FY20E
P/E	26.7	59.0	35.1	29.5
Target P/E	28.4	62.8	37.3	31.4
EV / EBITDA	15.2	20.2	14.8	13.2
P/BV	3.9	3.8	3.5	3.2
RoNW	14.5	6.4	10.0	10.8
RoCE	11.6	7.0	9.8	11.8
ROIC	15.8	8.7	12.6	14.3

Stock data

Stock Data	₹ crore
Market Capitalization	458.4
Total Debt (FY18)	62.0
Cash and Cash Equivalent (FY18)	0.3
Enterprise Value	520
52 week H/L	530 / 220
Equity Capital	14.8
Face Value	₹ 10
MF Holding (%)	0.0
FII Holding (%)	0.0

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- Linc Pen & Plastics (Linc) posted a muted Q4FY18 performance, primarily tracking headwinds in export markets coupled with a slower-than-expected rebound in domestic segment. On the margin front, Linc witnessed compression due to increase in crude price as crude derivatives form ~40% of raw material costs (~65% of sales)
- Net sales for the quarter came in at ₹ 103.4 crore, down 1.5%
- EBITDA in Q4FY18 was at ₹ 8.5 crore with corresponding EBITDA margins at 8.2%, down 130 bps YoY. PAT in Q4FY18 was at ₹ 3.1 crore vs. ₹ 5.6 crore in Q4FY17. PAT growth lagged the topline and EBITDA growth primarily tracking increased incidence of depreciation and interest on account of commissioning of new plant

FY18 a washout year, positives in place for growth in FY18-20E!

FY18 was a washout year at Linc on account of temporary disruption in the trade channel due to implementation of GST effective July 1, 2017 and arbitrary imposition of duties on writing instrument category in the exports market. Net sales for the year came in at ₹ 332.0 crore, down 8% YoY. Export sales in FY18 were at ₹ 80 crore, down 24% YoY. EBITDA in FY18 was at ₹ 25.7 crore, down 23% YoY. EBITDA margins in FY18 were at 7.8%, down 150 bps YoY (9.3% in FY17). PAT in FY18 was at ₹ 7.8 crore vs. ₹ 17.2 crore in FY17. With structural positives in place, including high proportion of school going population domestically and tapping of new markets on the export front, we expect growth to rebound at Linc, going forward. However, increasing penetration of digital age will limit the overall industry growth to single digits.

Incremental capacity in place, volume growth to follow!

Linc has recently expanded its capacity from 76 crore pens in the past to 91 crore pens as of FY18 end. The new plant has been established in Gujarat with a capacity of 15 crore pens. The peak turnover from the facility will be ~₹ 60 crore with intended RoCE of ~15-18% (building in EBITDA margins at ~10%) 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 ~10% in FY18-20E to 87 crore units in FY20E (~72 crore units in FY18). Consequent pen sales are expected to grow at a CAGR of 10.3% in FY18-20E to ₹ 348 crore in FY20E (~₹ 280 crore in FY18). We expect realisations to remain largely flat at ~₹ 4/unit.

Debt peaks in FY18, debt reduction to follow, maintain HOLD!

On account of greenfield expansion, elongated current assets due to stuck up funds at various tax authorities post GST as well as buyout of new office place, Linc loaded its balance sheet with debt. As of FY18, its total debt was at ~₹ 62 crore. However, leverage was healthy with debt: equity at 0.5x. Going forward, with no major expansion in place we expect debt to decline meaningfully to ~₹ 40 crore by FY20E. On the capital efficiency front, Linc has a healthy business model thereby generating ~15% as core RoIC on a long term basis with average CFO yield at ~5% in FY18-20E. Factoring in positives as well as industry specific headwinds, we revise our estimates. Going forward, we expect sales to grow at 10.3% CAGR in FY18-20E with corresponding PAT CAGR of 41.1% CAGR in FY18-20E (albeit on a low base). We build in 160 bps improvement in EBITDA margins in FY18-20E. We value Linc at ₹ 325 i.e. 1.2x market cap/sales on FY20E numbers and assign a **HOLD** rating to the stock. Linc is a prominent writing instrument player domestically with good brand recall and a trusted name in the marketplace.

Company Analysis

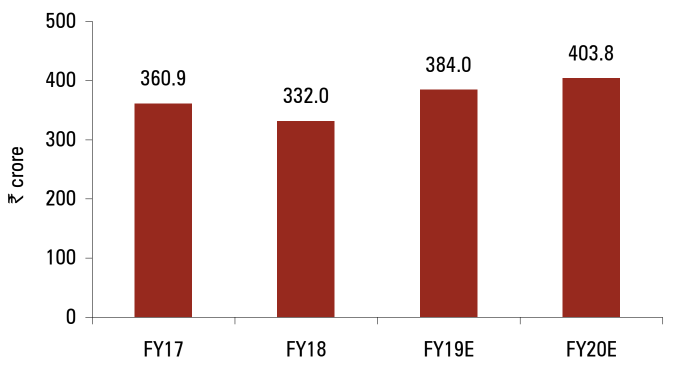
It is currently being headed by Deepak Jalan (Managing Director) and NK Dujari (Chief Financial Officer). In FY18, Linc paid a dividend of ₹ 1.5/ share vs. ₹3/share paid in FY17

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).

Revenue to grow at CAGR of 10.3% in FY18-20E!

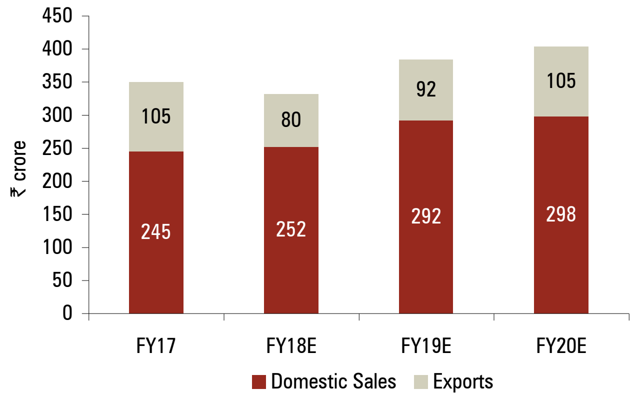
On the back of commissioning of the greenfield plant in Gujarat, we expect volume led growth to sustain, going forward. We expect total operating income to grow at a CAGR of 10.3% in FY17-19E.

Exhibit 1: Total operating income trend



Source: Company, ICICI Direct Research

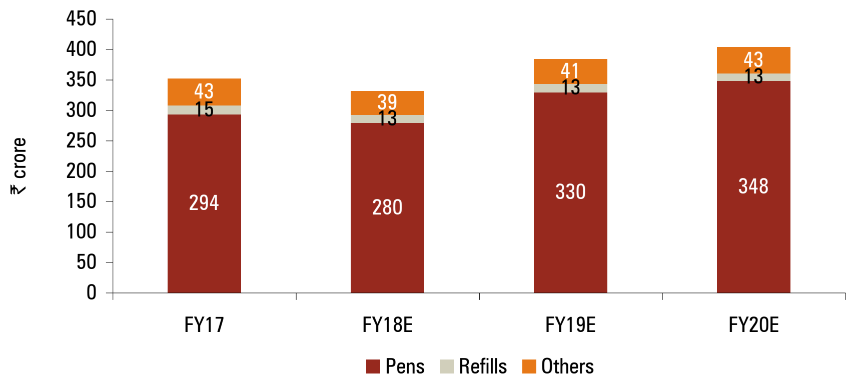
Exhibit 2: Domestic & export sales trend



Source: Company, ICICI Direct Research

Exports constituted a good ~30% of total sales in FY17, which dropped to ~25% in FY18. Going forward, we expect exports to rebound sharply growing at a CAGR of 15% to ₹ 105 crore in FY20E.

Exhibit 3: Sales break-up



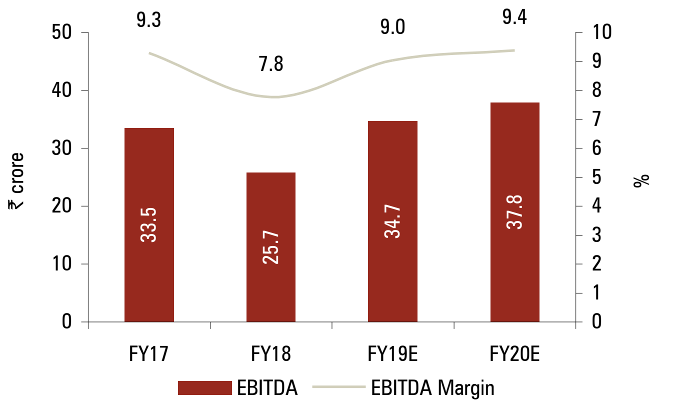
Source: Company, ICICI Direct Research

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, in FY18-20E.

EBITDA, PAT to witness robust growth tracking margin expansion

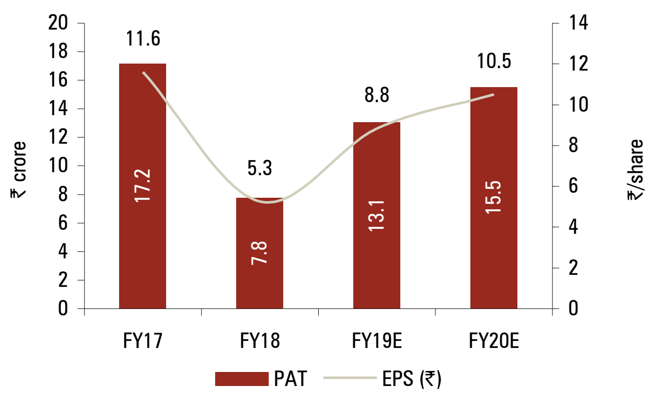
We expect EBITDA to grow at a CAGR of 21.2% in FY18-20E to ₹ 37.8 crore in FY20E (₹ 25.7 crore in FY18). We build in 160 bps improvement in EBITDA margins over the aforesaid period largely incorporating efficiencies from the new greenfield capacity, Linc's focus on producing more value added products and calibrated branding & promotional expenses. We expect Linc to report EBITDA margins of 9.0% in FY19E & 9.4% in FY20E vs. 7.8% in FY18.

Exhibit 4: EBITDA & EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 5: PAT & EPS trend



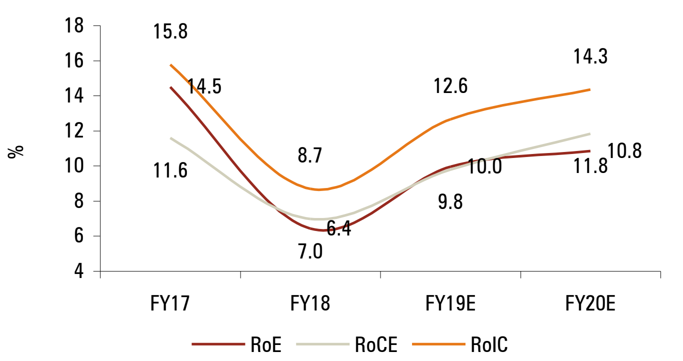
Source: Company, ICICI Direct Research

PAT is expected to grow at a CAGR of 41.4% in FY18-20E to ₹ 15.5 crore in FY20E (₹ 7.8 crore in FY18) with corresponding EPS expected at ₹ 10.5/share in FY20E (₹ 5.6/share in FY18).

Healthy return ratios & controlled working capital cycle

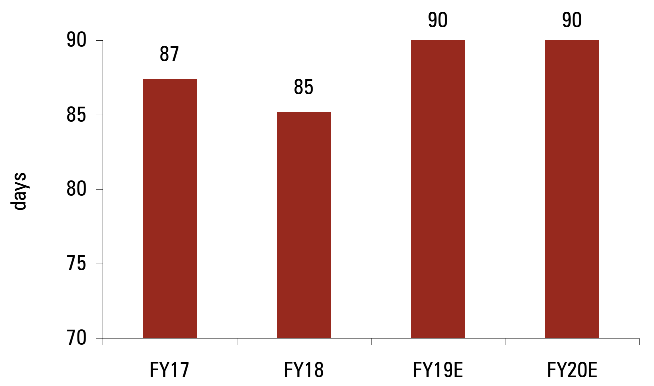
Return ratios are healthy with core RoICs in the range of ~16-20%. Post muted profitability in FY18, the same is expected to perk up to ~14% by FY20E. Muted profitability in FY18 (on account of de-growth in sales and higher raw material prices) took a toll on the overall returns ratio matrix, which is expected to stage a smart recovery, going forward.

Exhibit 6: Return ratios profile



Source: Company, ICICI Direct Research

Exhibit 7: Net working capital days trend



Source: Company, ICICI Direct Research

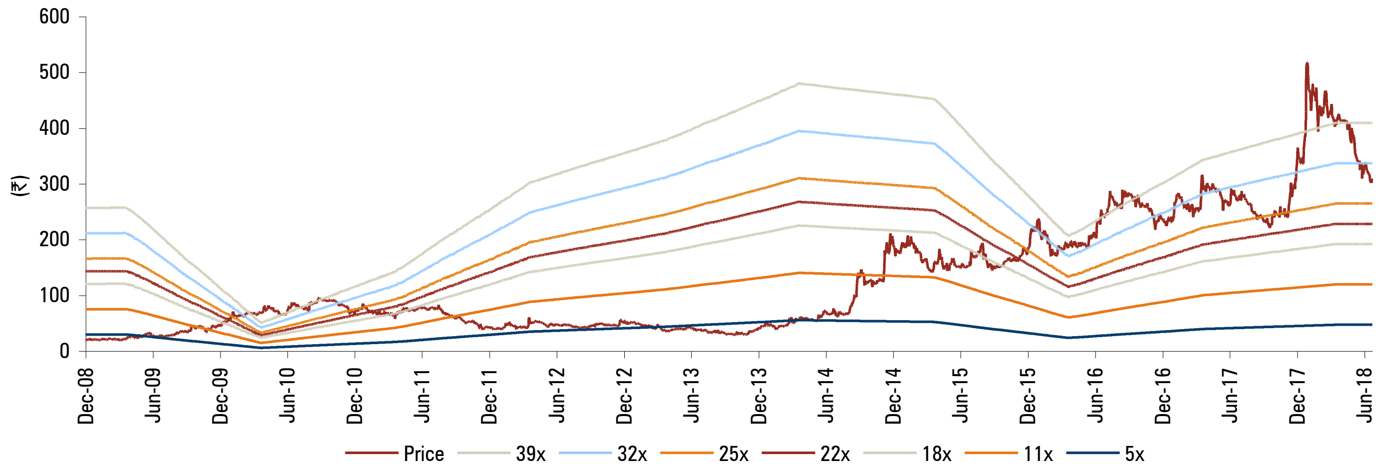
The working capital cycle is also controlled by net working capital days (NWC) at ~90 days. We have also been conservative in our estimates with NWC days expected at 90 days in FY18-20E.

Outlook and valuation

Linc is a prominent writing instrument player domestically with good brand recall and is a trusted name in the marketplace. 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.

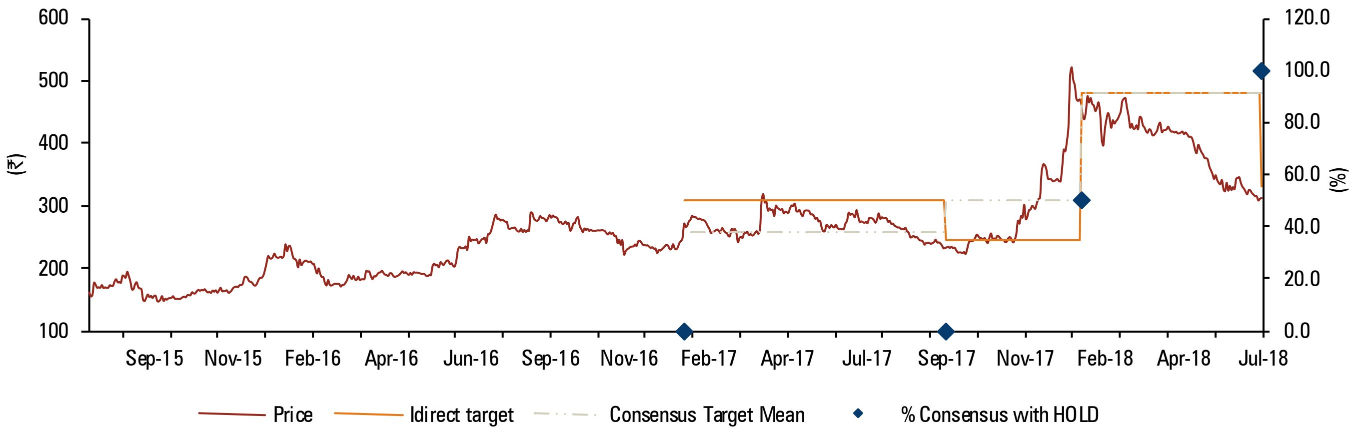
On account of greenfield expansion, elongated current assets due to stuck up funds at various tax authorities post GST as well as buyout of new office place, Linc loaded its balance sheet with debt. As of FY18, its total debt was at ~₹ 62 crore but the leverage is healthy with debt: equity at 0.5x. Going forward, with no major expansion in place, we expect debt to decline meaningfully to ~₹ 40 crore by FY20E. On the capital efficiency front, Linc has a healthy business model thereby generating ~15% as core RoIC on a long term basis with average CFO yield at ~5% in FY18-20E. Factoring in the positives as well as industry specific headwinds, we revise our estimates. Going forward, we expect sales to grow at a CAGR of 10.3% in FY18-20E with corresponding PAT CAGR of 41.1% CAGR in FY18-20E (albeit on a low base). We build in 160 bps improvement in EBITDA margins in FY18-20E. We value Linc at ₹ 325 i.e. 1.2x market cap/sales on FY20E numbers and assign a **HOLD** rating to the stock.

Exhibit 8: Two year forward P/E (Linc currently trading at 29.5x)



Source: Reuters, ICICI Direct Research

Recommendation history vs. consensus estimate



*Source: Bloomberg, Company, ICICI Direct 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	Commissions 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
2018	FY18 was a washout year at Linc on account of temporary disruption in the trade channel due to implementation of GST effective July 1, 2017 and arbitrary imposition of duties on writing instrument category in the exports market. Net sales for the year came in at ₹ 332.0 crore, down 8% YoY. PAT in FY18 stood at ₹ 7.8 crore vs. ₹ 17.2 crore in FY17.

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Jalan (Shobha)	31-Dec-17	13.6	2.0	0.0
2	Mitsubishi Pencil Co Ltd	31-Dec-17	13.5	2.0	0.0
3	Linc Writing Aids Pvt. Ltd.	18-May-18	10.7	1.6	0.0
4	Jalan (Sarita)	12-Jun-18	8.3	1.2	0.0
5	Jalan (Surajmal)	31-Dec-17	7.0	1.0	0.0
6	Jalan (Aloke)	31-Dec-17	5.2	0.8	0.0
7	Jalan (Deepak) HUF	31-Dec-17	3.5	0.5	0.0
8	Jalan (Devanshi)	31-Dec-17	2.5	0.4	0.0
9	Ajanta Sales Pvt. Ltd.	31-Dec-17	2.5	0.4	0.2
10	Jalan (Rohit)	31-Dec-17	2.4	0.4	0.0

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	59.9	59.9	60.2	59.3	59.3
FII	0.1	0.2	0.1	0.0	0.0
DII	1.9	1.9	1.9	1.2	0.0
Others	38.1	38.0	37.8	39.5	40.7

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor Name	Value (US$ M)	Shares(M)	Investor Name	Value (US$ M)	Shares(M)
Ajanta Sales Pvt. Ltd.	1.0	0.2	IDFC Asset Management Company Private Limited	-0.6	-0.1
Sharaff (Amit)	0.5	0.1	Linc Writing Aids Pvt. Ltd.	0.0	0.0
Shyam (S)	0.2	0.0	Dujari (N K)	0.0	0.0
Jalan (Deepak)	0.0	0.0			
Jalan (Bimla Devi)	0.0	0.0			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement			₹ Crore	
(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	349.7	332.0	384.0	403.8
Other Operating Income	11.2	0.0	0.0	0.0
Total Operating Income	360.9	332.0	384.0	403.8
Growth (%)	4.9	-8.0	15.7	5.2
Raw Material Expenses	231.8	221.0	255.1	266.3
Employee Expenses	20.8	25.5	28.9	31.0
Other Operating Expense	74.8	59.8	65.3	68.6
Total Operating Expenditure	327.4	306.2	349.3	365.9
EBITDA	33.5	25.7	34.7	37.8
Growth (%)	6.8	-23.2	34.7	9.1
Depreciation	7.9	9.6	10.6	11.0
Interest	2.2	4.9	4.8	4.0
Other Income	0.4	1.2	0.2	0.3
PBT	23.8	12.4	19.5	23.2
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	6.6	4.6	6.4	7.6
PAT	17.2	7.8	13.1	15.5
Growth (%)	-6.1	-54.7	68.2	18.8
EPS (₹)	11.6	5.3	8.8	10.5

Source: Company, ICICI Direct Research

Cash flow statement			₹ Crore	
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	17.2	7.8	13.1	15.5
Add: Depreciation	7.9	9.6	10.6	11.0
(Inc)/dec in Current Assets	-10.4	-14.2	-10.8	-5.1
Inc/(dec) in CL and Provisions	-14.0	11.6	0.5	2.5
Others	2.2	4.9	4.8	4.0
CF from operating activities	2.8	19.7	18.0	27.9
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-21.7	-20.0	-5.0	-5.0
Others	1.2	-0.5	0.0	0.0
CF from investing activities	-20.5	-20.5	-5.0	-5.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	19.9	11.2	-5.0	-15.0
Dividend paid & dividend tax	-5.3	-2.7	-3.5	-5.3
Inc/(dec) in Share Cap	5.2	-2.6	0.8	1.8
Others	-2.2	-4.9	-4.8	-4.0
CF from financing activities	17.6	1.0	-12.5	-22.5
Net Cash flow	-0.1	0.1	0.6	0.4
Opening Cash	0.3	0.2	0.3	0.9
Closing Cash	0.2	0.3	0.9	1.3

Source: Company, ICICI Direct Research

Balance sheet			₹ Crore	
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	14.8	14.8	14.8	14.8
Reserve and Surplus	103.5	106.0	116.4	128.3
Total Shareholders funds	118.3	120.8	131.2	143.1
Total Debt	50.8	62.0	57.0	42.0
Deferred Tax Liability	4.0	3.4	3.4	3.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	173.1	186.2	191.6	188.6
Assets				
Gross Block	99.2	129.5	134.7	139.7
Less: Acc Depreciation	52.2	61.8	72.3	83.3
Net Block	47.0	67.7	62.4	56.4
Capital WIP	10.6	0.2	0.0	0.0
Total Fixed Assets	57.6	67.9	62.4	56.4
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	78.9	89.4	94.0
Debtors	39.9	45.9	52.6	55.3
Loans and Advances	32.9	41.4	34.6	32.3
Other Current Assets	0.5	0.0	0.4	0.4
Cash	0.2	0.3	0.9	1.3
Total Current Assets	152.1	166.4	177.8	183.3
Creditors	34.7	47.3	47.3	49.8
Provisions	2.0	1.0	1.4	1.5
Current Liabilities & Prov	36.7	48.3	48.8	51.3
Net Current Assets	115.4	118.1	129.1	132.0
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	173.1	186.2	191.6	188.6

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	11.6	5.3	8.8	10.5
Cash EPS	17.0	11.8	16.0	17.9
BV	80.0	81.7	88.7	96.8
DPS	3.0	1.5	2.0	3.0
Cash Per Share (Incl Invst)	0.1	0.2	0.6	0.8
Operating Ratios (%)				
EBITDA Margin	9.3	7.8	9.0	9.4
PBT / Total Op. income	6.6	3.7	5.1	5.7
PAT Margin	4.8	2.3	3.4	3.8
Inventory days	82.0	86.8	85.0	85.0
Debtor days	41.7	50.4	50.0	50.0
Creditor days	36.2	52.0	45.0	45.0
Net Working Capital days	87.4	85.2	90.0	90.0
Return Ratios (%)				
RoE	14.5	6.4	10.0	10.8
RoCE	11.6	7.0	9.8	11.8
RoIC	15.8	8.7	12.6	14.3
Valuation Ratios (x)				
P/E	26.7	59.0	35.1	29.5
EV / EBITDA	15.2	20.2	14.8	13.2
EV / Net Sales	1.5	1.6	1.3	1.2
Market Cap / Sales	1.3	1.4	1.2	1.1
Price to Book Value	3.9	3.8	3.5	3.2
Solvency Ratios				
Debt/EBITDA	1.5	2.4	1.6	1.1
Debt / Equity	0.4	0.5	0.4	0.3
Current Ratio	4.1	3.4	3.6	3.6
Quick Ratio	2.0	1.8	1.8	1.7

Source: Company, ICICI Direct Research

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Hold: Up to +/-10%;
Sell: -10% or more;

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