Control Print Ltd.

TP: INR 560 - ACCUMULATE

5 March 2018

Miscellaneous

Initiating coverage

Key Statistics

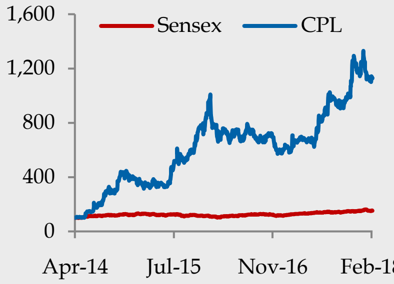
CMP (INR)*	451
Upside/downside (%)	24.2
Market Cap (INR/USD bn)	7.3/0.1
Shares outstanding (mn)	16.3
3 months avg volume	22,164
Dividend Yield (FY17, %)	1.3
52 Wk high/low	554/244
Sensex/Nifty	34,047/10,458
Bloomberg Code	CTPI IN

Performance (%)*	1M	3M	12M
Absolute (%)	(5.6)	(10.0)	67.4
Rel. to Sensex (%)	0.3	(11.6)	48.6

*As on 1st March 2018

Sh. Pattern, % (as Dec-2017)	
Promoter	55.7
FII	9.8
DII	1.6
Other	32.9
Total	**100.0**

Stock Price Performance*



* Rebased to 100 | Based on daily closing prices

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Prints Itself Back on Track After a Major Hiccup a Decade Ago

Control Print Limited (CPL) is involved in the coding and marking (C&M) industry. The company manufactures and sells C&M systems and other related supplies catering to the needs of various industries such as foods, beverages, FMCG, agrochemicals, seeds, cables/ wires, pipes, extruded plastics, textiles, steel/ metal, pharmaceuticals, cement, plywood, amongst others. CPL derives about a fifth of its revenues from the sale of printers and ~71% of revenues through sales of consumables. The Indian C&M industry is sized at ~INR 12-13 bn, with 4 players (including CPL) controlling 80%-85% of the market. CPL has a share of less than a fifth (of the major players); other major players include Markem-Imaje S.A. (~21% share of the major players), Videojet Technologies Inc. (~27-28%), and Domino Printing Sciences Plc (~31%).

The C&M industry has been growing at ~12-15% per annum. With many drivers in place - including legal requirements, rising customer awareness and logistical needs - we expect this momentum to be maintained. To add to this, the industry enjoys fairly high entry barriers and a sticky business model which provides good revenue visibility. We initiate coverage on CPL with ACCUMULATE view and a TP of INR 560 from a 2 to 3 year perspective.

- ✓ **Strong comeback after a hiccup a decade ago:** CPL set up a manufacturing unit to develop and manufacture its own printers around the time its tie up with Videojet (for which CPL was an exclusive dealer) came to an end in 2008. Over the years, the company has done well to set up a strong installation base of 9,769 units as of FY17. Installation base stood at over 6,060 units as of FY13. With the company selling 1,800+ machines a year, its installed base is expected to remain firm and will in turn drive the growth of its more profitable segments - consumables, spares and services.
- ✓ **Entry barriers to keep new entrants at bay:** The oligopolistic nature of the industry (top four players controlling ~80-85% of the market) leads to very slow shifts in market shares as all major players are well entrenched. The business model of the industry makes it difficult for a new player to make a considerable dent on entrance. Business is dependent on having a strong installed base, followed by regular client servicing. For the latter to take place, one needs to have a strong reach across the country and a good reference base which is a process that takes time to build. To add to this, business tends to be sticky in nature as well, with repeat business forming ~70% of sales.
- ✓ **Favourable tailwinds:** The C&M industry is driven by legal requirements to provide product information to customers, printing specifications, ISI logo and company logo. It also finds various other applications such as facilitating inventory control by reduction in wastage of packaging material and printing on the production line, traceability of products by date of manufacture, batch numbers, shift numbers, and real time-date and ensuring quality control, counterfeit prevention, marketing promotion by printing variable information and logos. These will ascertain demand for C&M products.
- ✓ **Initiate with ACCUMULATE rating and TP of INR 560:** Given the sticky business model in an industry that is growing at a healthy pace, we expect CPL's revenues to grow by ~18% per annum over the next three years (FY17-FY20). We value CPL at 21x times its earnings (in line with market expectations), thereby giving us a TP of INR 560 (an expected return of ~24% on a point to point basis) from a 2-3 year perspective.

Year End (31 Mar)	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR mn)	1,345	1,473	1,827	2,087	2,401
Growth (%)	19.1	9.5	24.0	14.2	15.1
EBITDA (INR mn)	357	383	532	585	671
EBITDA Margin (%)	26.6	26.0	29.1	28.0	27.9
Adjt. PAT (INR mn)	238	259	333	377	436
Adjt. PAT Margin (%)	17.7	17.5	18.2	18.1	18.2
Diluted adjt. EPS (INR)	14.6	15.8	20.4	23.1	26.7
Growth (%)	40.0	8.8	28.9	13.1	15.8
ROE (%)	19.5	18.9	18.0	18.3	18.9
P/E (x)	31.0	28.5	22.1	19.6	16.9
EV/EBITDA (x)	21.0	19.6	14.1	12.8	11.2
P/BV (x)	6.0	5.4	4.0	3.6	3.2

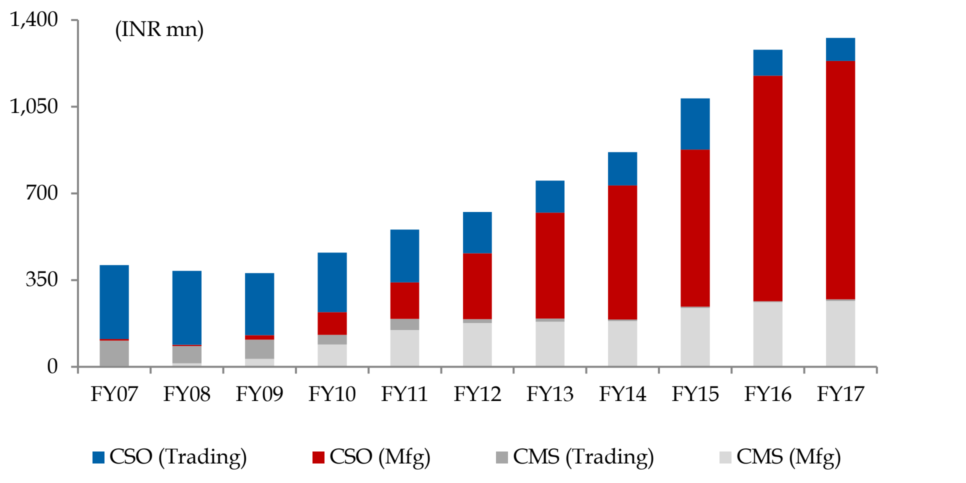
Source: Company, YSL estimates; Note: Valuations as on 1st March 2018

A strong comeback in an industry that is not easy to penetrate…

- **CPL makes a strong comeback after having a fallout with Videojet:** The end of its tie up with Videojet Technologies in 2008 (prior to which CPL was the exclusive dealer in India) led CPL to venture on its own. As the date for the end of its association with Videojet came closer, CPL set up a manufacturing unit to develop and manufacture its own printers. The company initially met its clients' requirements by trading printers (including imports); over time it reduced the trading business and now largely manufactures most of its coding and marking systems (CMS; printers) and consumables, spares and others (CSO).

  The chart below indicates the company's revenue trajectory. As can be observed, the share of CPL's trading business (for both CSO and CMS) has reduced considerably over time.

Exhibit 1: CPL's trading business has reduced sharply over time

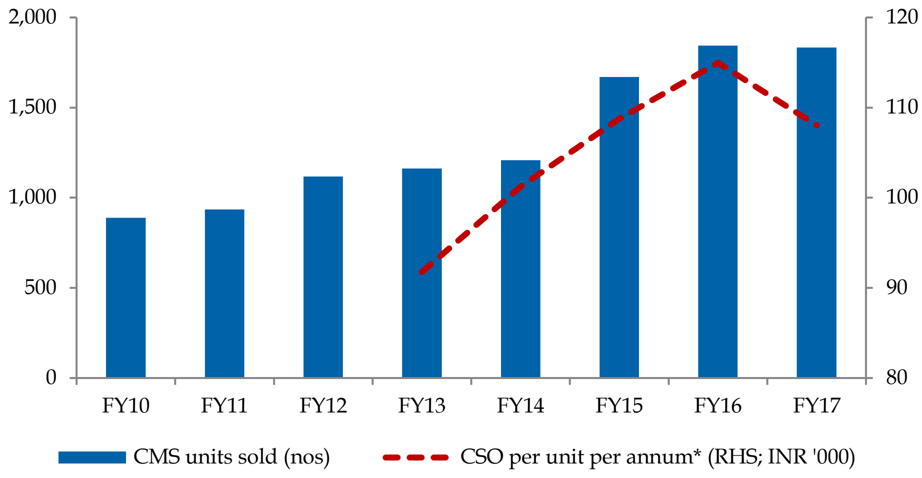


Source: Company; YSL

CPL currently has two plants – one located at Nalagargh (Himachal Pradesh; set up in 2006) and the other at Guwahati (Assam; 2017). Currently, printers are manufactured at the former, while consumables are made at the latter. Capacity utilization at its Nalagarh facility is ~80% while the Guwahati facility is operating at ~35-40%. The Guwahati facility is set up in a tax free zone (valid till 2027); the company is expected to have an effective tax rate of about 21-23% range. The company will look to set up a new printer facility two to three years down the line, once its existing capacity is fully utilized.

CPL's installed printer base has grown over the years. The chart below showcases its annual printer sales (in units) over the years.

Exhibit 2: CPL's annual printer sales trend over the years (in units)

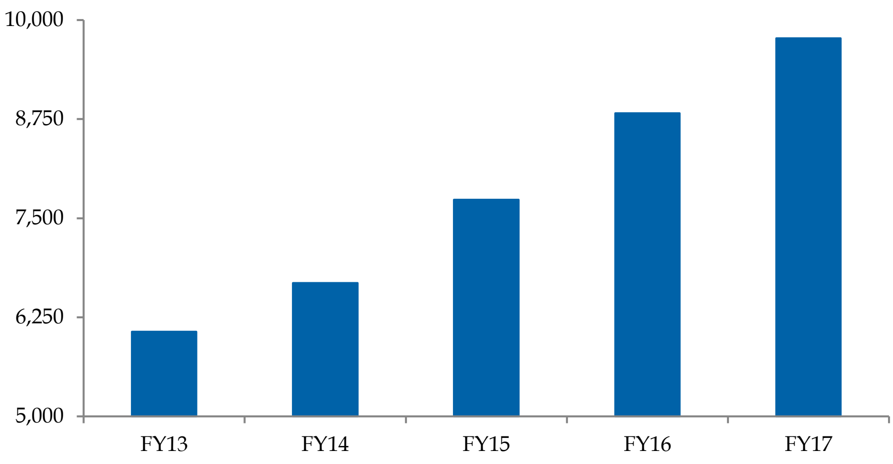


Source: Company; YSL; *assuming an average life of a CMS to be 7 years

With the company selling more CMS systems each passing year, its installed base has increased in a gradual manner. Assuming the average life of a printer to be ~7 years (installed base = all printers sold in the seven years leading up to FY17), CPL's installed base stands at 9,769 units as of FY17.

During 9MFY18, the company's revenues grew by ~29% YoY, largely driven by volume growth. As per the company's management, printer volumes rose by ~20% on a YoY basis. Also the impact of the initiative taken by the company to reduce the usage of spurious ink (elaborated below) also played its part in this growth. Printer volumes were driven by select new launches (TIJ) as well as the large character printers (for cement sector) during this period.

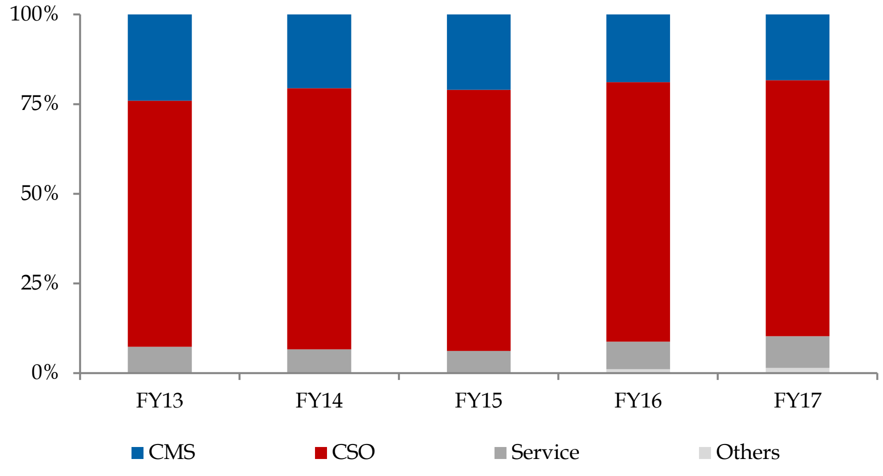
Exhibit 3: Trend in CPL's printer installed base*



Source: Company; YSL; * average life of a CMS assumed to be 7 years

With the increasing installed base, the company's CSO business has risen sharply, clocking revenues of over INR 1.05 bn in FY17 as compared to sales of ~INR 560 mn in FY13, a CAGR of over 17%.

Exhibit 4: CPL's product/ service wise break up as a % of sales

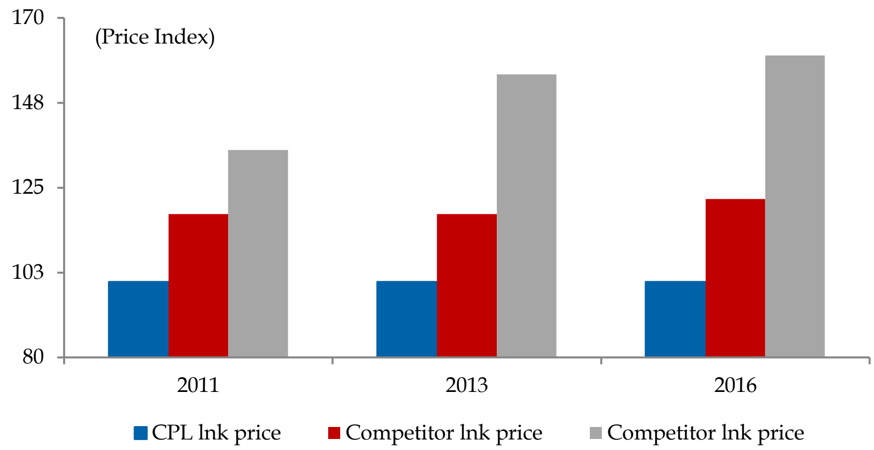


Source: Company; YSL

On dividing the annual CSO revenues by installed base of each year, the business per printer comes to ~INR 111,000 (average of FY15-FY17). CSO consumption per machine is largely a function of two factors – amount of production at the manufacturer's side and the usage of spurious ink (as much as 15-20% of consumables sales for the industry).

While overall manufacturing activity drives the former, CPL has worked to address the latter issue by implementation of RFID technology (or smart card protection) on to its printers (implemented in 3QFY17). This, the company did so for 3,000 printers of its existing installed base as well, for which it incurred a total cost of ~INR 50 mn. This effort is aimed at disallowing end users to use ink of other makes. The new provisions made by the company requires the user to scan ink bottles, thereby allowing the machine to accept the ink only for a certain number of hours, after which it lapses. As per the company, this initiative has provided favourable results. This effort along with a pickup in overall manufacturing activity will provide an upward move the CSO per machine (over its life) consumption overtime.

Exhibit 5: CPL prices its ink at more attractive rates*



Source: Company, YSL; *indicative data

While pricing products at a more attractive rate is not really a game changer (given the very low cost per unit for the manufacturer), CPL has priced its ink at much attractive rates (refer chart above) as compared to its peers (who largely import the machines and consumables). Nevertheless, this factor has played its part in helping CPL grow its business overtime as well.

✓ **Entry barriers on the higher side:** The Indian C&M industry is controlled by four players (including CPL) who have combined revenues of INR 12 to 13 bn forming ~80-85% of the market. The key players include:

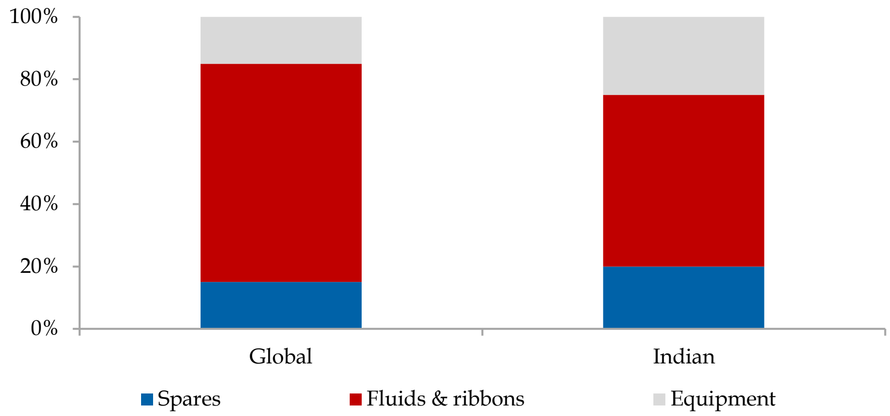
- Markem-Imaje S.A. (~21% share of the large players), a wholly owned subsidiary of Dover Plc. USA;
- Videojet Technologies Inc. (~27-28%), a wholly owned subsidiary of Danaher Plc. USA;
- Domino Printing Sciences Plc (~31%).

CPL is the fourth largest company in this space currently, with market share of ~18-20%. This stood in the mid-teen range a few years ago. Besides these four players, there are a handful of well entrenched small to medium companies (who form about 15-20% of the market) which have good geographical presence and a strong hold in select technology.

Given the oligopolistic nature of the business, shifts in market shares are slow as the players are well entrenched. Not to mention that the business model followed by the industry – to increase the installed base of printers as aggressively as possible followed by regular servicing of clients - is such that it becomes difficult for a new player to make a considerable dent upon its entrance. Industry players tend to sell printers at minimal margins (CPL's margins on its printers are as low as 5%) and then make good money on the consumables (gross margins as much as 80% for CPL), spare parts (~50%) and servicing clients.

CPL's average blended realization per CMS per annum stood at INR ~146,000 per unit in between FY15-FY17 as compared to average realization of INR ~166,000 per unit per annum between FY12-FY14.

Exhibit 6: Industry revenue breakup



Source: Company; YSL

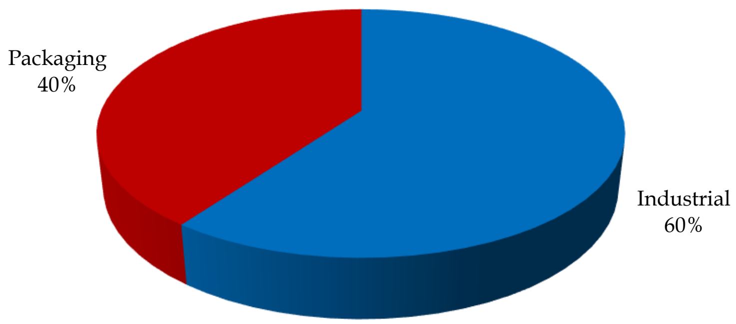
Given that end cost to customer (manufacturing companies) is minimal - running cost being a few *paise* per unit manufactured – the total cost does not become a major factor for consideration. Rather, what becomes essential is to keep the uptime high for their factories and downtime low. And thus servicing clients' needs is a continuous activity for the C&M players.

Customers also tend to be inelastic towards having a second supplier for services, maintaining separate stocks and switching systems to learn new ones. As such, sales in excess of 70% are from repeat customers for all major C&M players.

CPL, being part of this industry since 1991, itself had to take a different approach to expand business as it was finding it difficult to break into the early adopters of the C&M products – which was mainly the FMCG and pharmaceuticals space. This is despite the company having relationships with these clients when it was the distributor for Videojet.

As a result, industrial clients form about 60% of its revenues while the packaging companies (as how the company defines it; which includes FMCG and pharmaceutical companies) contribute to the balance.

Exhibit 7: CPL's customer break up



Source: Company; YSL

Apart from having a comprehensive range of spares & printers to be stocked irrespective of individual sales, new entrants would also require a long gestation period towards building a pan India brand and presence to be able to gain business and service clients accordingly. Servicing clients on demand is a factor that makes it important for a players to have a wide spread across the country as well.

Not to mention that it becomes essential for companies to have the right staff (those that are trained well and regularly for new products) to be able to handle breakdown calls independently.

All of these factors would make it difficult for a new entrant to make a sizeable dent.

- **Favourable tailwinds:** C&M entails printing various information on products such as batch numbers, manufacturing and expiry dates, maximum retail prices, serial numbers, special markings, logos, company names and barcodes.

Exhibit 8: Examples of coding and marking

Source: Company; YSL

The C&M industry is driven by the various applications including:

- Meeting legal requirements and regulations. Companies are required to provide product information to customers, printing specifications, ISI logo and company logo.
- Aids the logistical process as goods can be tracked from manufacturing unit till the time they leave the retail store with the end-user or customer.
- Traceability of products becomes more manageable as information such as date of manufacture, batch numbers, shift numbers, and real time-date is provided.
- Facilitates inventory control by reduction in wastage of packaging material and printing on the production line.
- Ensures quality control, and helps to secure brands against counterfeits prevailing in the global C&M system market.
- Facilitates brand building and marketing promotion through printing variable information and logos and other useful information such as increased safety issues and quality assurance of the product.

C&M is directly linked to the manufacturing and packaging industry growth. And with the increasing range of applications (due to implementation of global manufacturing practices), growth of the industry is expected to remain firm going ahead.

✓ **Product portfolio expansion:** CPL's product portfolio includes Continuous Inkjet Printer (CIJ), Large Character Drop on Demand Printer (LCP), Thermal Ink Coders, Transfer Over Printer (TTO), Laser Coders, Thermal Inkjet Printer, High Resolution Piezo Inkjet Printer and related consumables (ink/ fluids) and spare parts.

While CPL has launched upgrades as well new models to expand its portfolio over time, CIJ printers continue to be the preferred printer, forming about 80% of CPL's CMS business. As per the company, the market for this product segment is slow but steady, growing at ~7 to 8% per annum. However, the increasing adoption of other printers (which CPL has launched in recent years) such as TIJ, TTO, and LCP printers (product profile mentioned below) is expected to drive the industry growth higher growth.

Description of key products:

- **Continuous Inkjet Printer**: This is a non contact precision marking system. This system is suitable for an entire range of variable data coding applications including dates, logos, barcodes, lot numbers, longer texts, graphics and pricing information. This product is the largest seller for the company, forming about ~80% of the printer sales. CPL has tied up with KBA for the technology for its CIJ printers for which it pays ~ 5% of sales (of printers and consumables) as royalty to it. This tie up is valid till 2021.

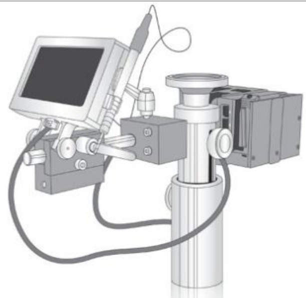
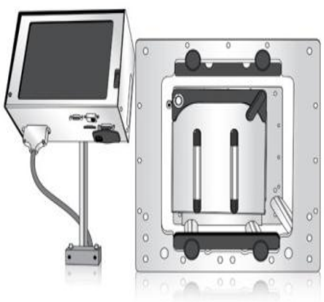
- **Thermal Inkjet Printers**: This printer is useful for variety of basic & advanced coding applications such as date, price, batch, linear & data matrix barcodes, logos, and graphics. This printer is suitable for pharmaceuticals, food, packaged goods, and personal care industries.

- **Hi-resolution Inkjet Printer**: This printer is suitable for variety of variable (including linear and bar-coding) barcodes, graphics and logos, real time information, and text directly on the production line. This system is useful for printing on plywood, kraft shipper cartons, as well as the construction material industry.

- **Thermal Transfer Over-Printer**: This machine is the preferred option for delivering high quality codes including date, price, batch, linear & data matrix barcodes, logos, graphics. It is suitable for foods and pharmaceutical industry including snack foods, bakery, and packaged foods.

- **Large Character Printer**: This a tough printer, ideal for printing variable information and text information on difficult to print surfaces even in the harshest of conditions - especially when the print needs to be visible from a long distance. Finds application in sectors such as metals, rubbers, glass, cement or chemicals.

Exhibit 9: CPL's product profile

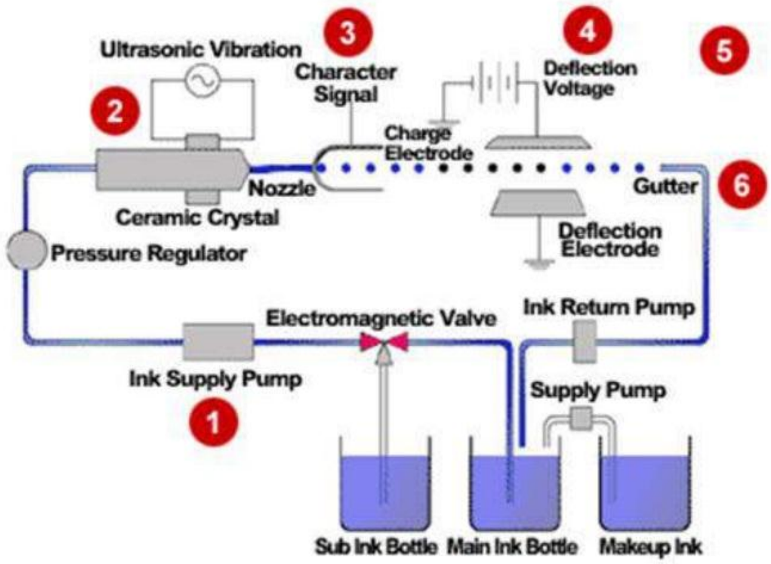
Product Image	Printer type	Print Sample
	Continous Inkjet Printer	
	Hi-Resolution Inkjet Printer	
	Large Character Printer	
	Thermal Inkjet printer	
	Thermal Transfer Overprinter	

Source: Company brochures, YSL

Quick overview on the technologies (Source: Inc.jet white paper)

- **Continuous Inkjet**: *"CIJ works on the principle of jetting a continuous stream of electrostatically charged ink droplets into a gutter that returns it back into the ink supply. When a print pixel is required, it is deflected for a brief moment away from the gutter and this drop impacts onto the substrate. Only a small fraction of the droplets are used to print, the majority being recycled. The ink is held in suspension in a solvent and some of this will vent to the atmosphere. The returned ink is constantly monitored for viscosity and a solvent is added to counteract fluid loss."*

Exhibit 10: CIJ working



Source: Inc.jet white paper

- **Thermal inkjet**: *"In TIJ the print cartridges contain a series of tiny chambers, each containing a heater. To eject a droplet from each chamber, a pulse of current is passed through the heating element causing a rapid vaporization of the ink in the chamber to form a bubble, which causes a large pressure increase, propelling a droplet of ink onto the substrate."*

✓ **Strong and diverse clientele:** CPL caters to a host of industries which include (but not limited to) agrochemicals & seeds, beverages, cable & wire, food, healthcare, pipes & extruded plastics, rubber & tyres, textiles, automotive, building & construction material, cement, electronics, FMCG, packaging & packaging material, plywood, steel & metal, amongst others.

As per the company, no client forms more than 5% of revenues.

Exhibit 11: CPL's clientele includes some industry majors

Source: Company

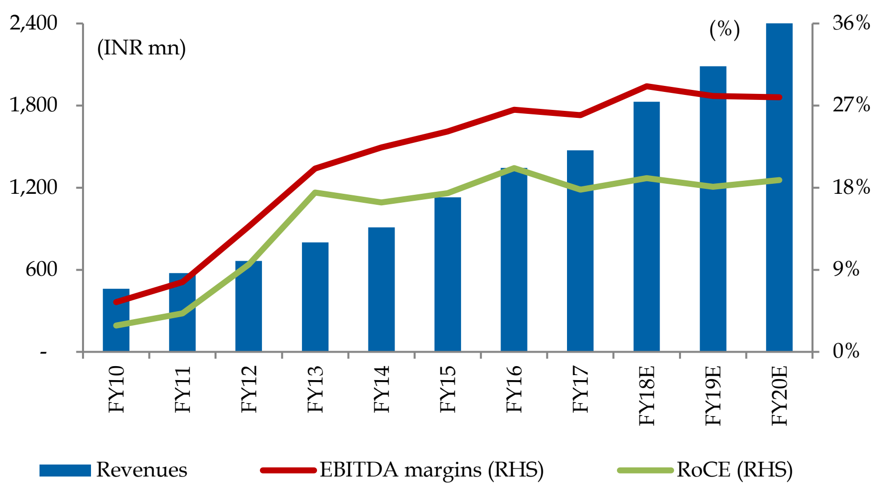
✓ **Strong financial track record:** CPL's revenues have grown at a healthy pace of ~17% over the past five years. During this period, its EBITDA and profit after tax rose by ~33% and ~41% respectively. The company's margins expanded at a steady pace as the share of the non-CMS business rose to ~81% of revenues (during the FY15-17 period) from ~71% during the five year period ended FY13.

With margins expanding over time, the company's financial ratios have been on a uptrend trajectory as well – especially after the dull period of 2008-2009. In the past three years, CPL reported RoCE (post tax) of ~18.4%, a stark improvement from low single digit RoCE levels during the FY09-FY11 phase.

During 9MFY18, CPL's financial performance has been strong with revenues, EBITDA, profit before tax and net profits rising by ~27%, ~43%, ~118% and ~100% respectively (PBT and PAT numbers grew faster as a result of the shift to the IndAS accounting standard).

While GST does not impact the company's financial performance considerably, it does have an impact on its target customer base as the formalization of economy and more market share for the organized players to enable more companies to adhere with the legal requirements and regulations, leading to increased business for the C&M industry.

Exhibit 12: CPL has performed well on the financial front



Source: Company; YSL

✓ **QIP funds to help with new initiatives:** In January 2018, CPL raised ~INR 300 mn through a QIP issue (issue price INR 455 a share; 659,340 shares issued) which was equally shared by two investors (SBI Mutual Fund and Baring Private Equity). The company intends to utilize these funds largely for three purposes:

- Acquisition: While CPL's management did not divulge information on the timeline and possible target company, it did mention that the company in focus is part of the same industry in India.
- Expansion into international markets: CPL is looking to expand in global market and will utilize some of the funds to expand its reach in Africa as part of its long term plan to become a global player (currently exports form ~2% of its revenues).
- Investments towards technology: CPL is looking to work with laboratories/ partners outside the country to launch new range of products.

Valuation

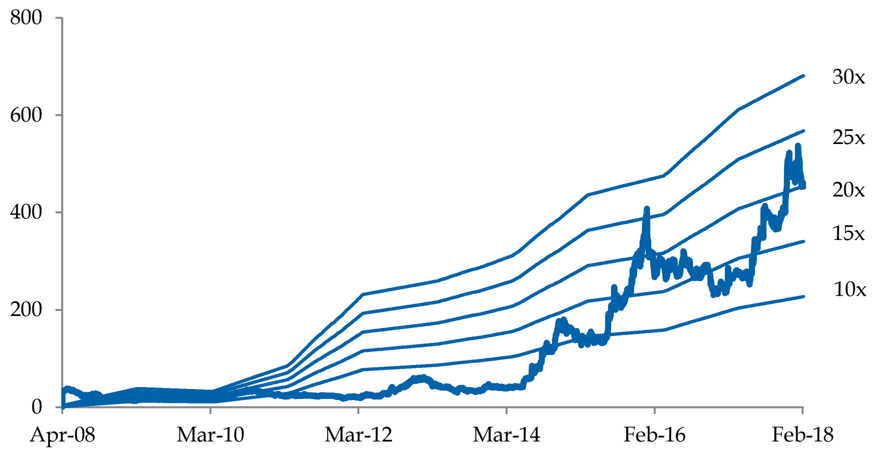
- **Initiate with target price of INR 560; ACCUMULATE rating**

The Indian C&M industry is an oligopolistic market, one which has been growing at a healthy pace – 12% to 15% CAGR over the past many years. Within this industry, CPL has been targeting to outpace the industry growth, with it looking to increase market share at a slow and steady pace. This, it is looking to do by differentiating itself from competition by targeting industrial clients, launching new products to existing customers or by leveraging on its long term relationships, playing the 'Make in India' card, as well as providing additional aspects such as cost differentiation and better service (more engineers being available to customers resulting in faster turnaround times). The company has also been aggressive on the sales and marketing front of late.

With CPL not having liquidity constraints and improved technology in place (RFID technology implemented), we believe the company is a good proxy on manufacturing activity in India. The relatively higher barriers to entry, which makes it difficult for a new player to make a dent in the market (as experienced by CPL in the initial years of operating on its own) coupled with the fact that the favourable regulatory environment will keep growth levels steady, are positives as well. Not to mention the industry's sticky nature of clients is one trait that provides good stability and revenue visibility.

The stock of CPL has traded at a valuation multiple of ~15.9 times its 1 year forward earnings over the past three years, ~19.8 times in the past six months and by ~21x over the past three months. We believe the current valuations are justified given the quality and visibility of earnings combined with the strong growth reported in the fiscal so far. **We initiate coverage on Control Print Limited with ACCUMULATE rating and a TP of INR 560 based on a multiple of 21x our FY20E EPS.**

Exhibit 13: Control Print - 1 year forward P/E band chart



Source: Company, YSL

✓ Risks to our thesis

i. **Regulatory changes/ technology challenges:** Given that sales of the business are driven by legal and regulatory requirements (amongst other drivers) any adverse changes in this regard is likely to impact the company's performance. Not to mention that CPL's inability to match up with the technology that its peers in terms of quality and variants as well as new product developments can impact market share over long term.

ii. **Delay in pick of manufacturing activity:** CPL is a play on manufacturing activity in India, and thus any delay in the same, can lead to slower growth rates going ahead.

iii. **Capital allocation risks:** While CPL has largely been investing majority of its capital in the core business, the excess cash has been parked in the form of equity investments. While the company is looking to utilize the funds on its books (including those raised through the recently concluded QIP), it would be spending the same towards relatively new initiatives such as acquisition, and expanding reach to Africa, amongst others. The return on incremental invested capital will have to be gauged closely.

Company background

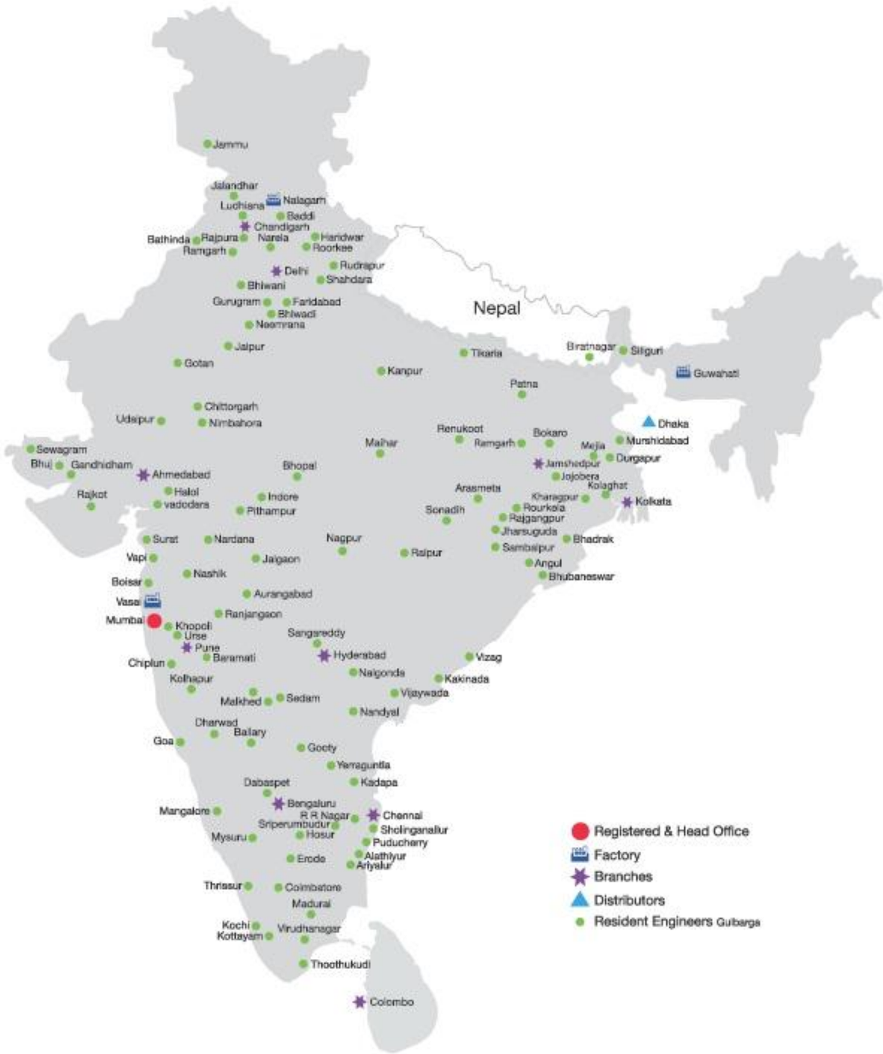
Set up in 1991, Control Print Limited has been involved in the C&M industry for over two and a half decades. The company is founded by Basant Kabra, who is currently the Chairman and Managing Director of CPL. The company was initially set up a distributor for Videojet, until the ties ended in 2008, leading Videojet to enter on its own. Post this, CPL worked towards developing capabilities on iten on including to develop and manufacture printing machines and associated consumables under its own brand name. The company tied up with a handful of partners companies – with the two key tie ups being KBA Metronic Gmbh Germany (for CIJ printers for which KBA receives royalty of 5% of sales) and Macsa ID, S.A, Spain, mainly for laser printers.

CPL has a pan-India presence with three units located at Nalagarh (Himachal Pradesh), Guwahati (Assam) and Vasai (Maharashtra; mainly a R&D center and sales office). The company's registered office is located in Mumbai and it has branches across India including Delhi, Chandigarh, Kolkata, Jamshedpur, Hyderabad, Chennai, Bengaluru, Pune and Ahmedabad as well as in Colombo (Sri Lanka).

CPL has more than 700 people on its payroll with the sales and service team forming about half of the employee base, a third of the force at the plants and the balance at the branch and admin level.

Over the years, CPL's promoters have gradually upped their stake largely though warrant issues. Post the QIP issue in January 2018, the promoter group held stake stood at ~53% (prior to which is was ~56%). In FY13, promoter holding stood at ~49%.

Exhibit 14: Control Print's reach is well spread across India



Source: Company

Key Personnel

- ✓ Basant Kabra is the promoter and Chairman & Managing Director of CPL. He has more than four decades of experience in overall management. Mr. Kabra holds a degree of Bachelors in Chemical Engineering.

- ✓ Shiva Kabra is the Whole-time Director of the company. He oversees the marketing, business development and strategy areas. He has over fifteen years of experience in the field of marketing, business development and strategy. He is a graduate in Economics and Mathematics from Grinnell College, USA and holds a degree of Masters in Business Administration from INSEAD, France.

- ✓ Rahul Khettry is the Chief Financial Officer of CPL. He has over 15 years of experience of leading and managing companies including multi-national joint ventures. He possesses financial background in addition to commercial and legal expertise in setting-up and implementing green/brown field projects and successfully completing M&A transactions.

GLOBAL CODING AND MARKING INDUSTRY

The global C&M industry is diversified across North America, Asia Pacific, Europe, Latin America, and Middle-east and Africa. North America accounts for the largest market share of ~31% of the global market in 2016. This market is expected to grow at the pace of 6% CAGR between 2017 and 2021. While developed markets are presently growing at 1 to 1.5x GDP growth, developing markets are growing at ~2x the GDP growth. Within the Asia Pacific region, China, Japan, and India are amongst the top contributing countries.

In terms of technology, CIJ is the preferred technology within the global C&M system market due to its ease of installation. Moreover, CIJ printers are expected to dominate the global C&M systems market among all the available technologies whereas, thermal transfer printers is currently the fastest growing technology in the global C&M system market throughout the forecast period. Increasing adoption of Thermal Inkjet, Thermal Transfer Overprinting, and Large Character Printers is expected to drive the industry growth.

The end users of the global C&M systems are segmented into food & beverages, pharmaceutical, consumer products and industrial. Food & beverages segment can be further sub-segmented into fruits & vegetables, meat & poultry, pet food & animal feed, dairy products, packaged food and others. Industrial segment can be further sub-segmented into automotive & aerospace, building material, chemicals, electric components & electronics and others.

Some of the key global players include Markem-Imaje UK Ltd, Overprint Packaging Ltd, Hitachi America Ltd, V.L. Limitronic, S.L., Danaher Corporation, ATD Ltd, RN Mark Inc., Markjet Inc., Squid Ink, an Engage Technologies Corporation Company, Domino Printech and ID Technology LLC.

One of the major challenges of the global C&M market is the volatility of the application industry. Majority of the application industry such as pharmaceutical, medical, and F&B industry have regular up-gradation of standards. The safety norms for these industries are set high. Thus, the C&M equipment needs to be enhanced in accordance with the standards. A solution to counter this volatility would to provide flexible coding solutions such as equipment with easily replaceable parts.

INDIAN CODING AND MARKING INDUSTRY

The Indian C&M industry is sized at about INR 12-13 bn, with four major players having a combined market share of ~80-85% (as per company). Domino Printing Sciences Plc (~31% market share), Videojet Technologies Inc. (~27-28%), Markem-Imaje S.A. (~21% share of the large players) and CPL (~18-20%) are the major players. CPL is believed to be the only company manufacturing in India, with others importing the equipment. The smaller players combined form the balance ~15% to 20% of the industry.

The C&M industry has historically grown at a healthy pace of 12-15% per annum. Its growth is largely in line with growth levels of the packaging and marking industry.

Being a relatively late entrant in the industry, CPL found it difficult to break through the existing range of customers as the early adopters of the C&M printers and products – which were mainly the FMCG and pharmaceuticals companies - largely continued to source their requirements from incumbent players. While CPL has been trying to break into this market by trying to gain market share in the incremental business, this is easier said than done as costs really do not pay as much of a influencing factor to the customers (given the per unit cost is minimal) as the breakdown and servicing aspects. Given that C&M is a critical aspect that cannot be skipped (due to regulations and market requirements, amongst other factors), it is not something that can be ignored. To keep the continuity in manufacturing going, it becomes important for the companies and marking companies to focus on the after sales services including keeping personnel on call to address any issues with the machinery within a short span of time. This is the area where CPL is looking to essentially differ itself from competition.

INCOME STATEMENT

(INR Millions)

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
Total operating revenues	1,345	1,473	1,827	2,087	2,401
Growth (%)	19.1	9.5	24.0	14.2	15.1
EBITDA	357	383	532	585	671
EBITDA margin (%)	26.6	26.0	29.1	28.0	27.9
Growth (%)	30.9	7.1	39.1	10.0	14.6
Depreciation & amortization	27	38	81	75	83
EBIT	331	345	451	510	588
EBIT margin (%)	24.6	23.4	24.7	24.4	24.5
Interest	16	11	18	18	18
Other income	2	4	0	0	0
Extraordinary items	27	2	(7)	-	-
Profit before tax	343	341	426	492	570
Tax	78	80	100	116	134
Adjusted net profit	238	259	333	377	436
Adjusted net margin (%)	17.7	17.5	18.2	18.1	18.2
Reported net profit	264	261	326	377	436
Adjusted EPS (INR)	14.6	15.8	20.4	23.1	26.7
Growth (%)	40.0	8.8	28.9	13.1	15.8

CASH FLOW STATEMENT

(INR Millions)

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
Net profit before tax	336	338	426	492	570
Depreciation & amortization	27	38	81	75	83
Change in working cap Inc/dec	(191)	(131)	218	(103)	(114)
Others	(88)	(87)	(82)	(98)	(116)
Operating cash flow	**84**	**158**	**643**	**367**	**422**
Capex	(119)	(74)	(73)	(75)	(75)
Free cash flow (FCF)	**(35)**	**84**	**569**	**292**	**347**
Investments	43	(15)	(0)	0	0
Others	18	5	0	0	0
Cash flow from investing	**(59)**	**(84)**	**(74)**	**(75)**	**(75)**
Equity issue	24	0	300	0	0
Debt issue (net)	50	16	0	0	0
Dividend & tax thereon	(74)	(85)	(146)	(165)	(191)
Other financing cash flows	(16)	(11)	(18)	(18)	(18)
Cash flow from financing	**(17)**	**(79)**	**136**	**(183)**	**(209)**
NET CASH FLOWS	8.2	(6)	706	109	139
Opening cash	10	18	12	718	827
Adjustments	0	0	0	0	0
Closing cash	18	12	718	827	965

BALANCE SHEET

(INR Millions)

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
SOURCE OF FUNDS					
Share capital	157	157	163	163	163
Reserve & Surplus	1,063	1,212	1,686	1,898	2,143
Total shareholder's funds	1,220	1,369	1,849	2,061	2,306
Debt	131	147	147	147	147
Other long term liabilities/provisions	45	55	55	55	55
TOTAL	**1,396**	**1,571**	**2,052**	**2,263**	**2,509**
APPLICATION OF FUNDS					
Gross block	512	639	714	789	864
Less: Accumulated depreciation	129	163	244	319	402
Net block	383	476	470	470	462
Capital WIP	49	2	-	-	-
Investments	131	162	162	162	162
Other non-current assets	24	11	11	11	11
Total current assets	1,027	1,204	1,756	2,012	2,329
Inventories	624	670	526	600	691
Debtors	364	400	476	543	625
Cash & cash equivalents	18	12	718	827	965
Loans & advances	21	122	37	42	48
Other current assets	0	0	0	0	0
Total current liabilities	218	284	348	392	457
Net current assets	809	920	1,408	1,620	1,873
Net deferred tax (asset)	-	-	-	-	-
TOTAL	**1,396**	**1,571**	**2,052**	**2,263**	**2,509**

KEY RATIOS

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY RATIOS					
EBITDA margin (%)	26.6	26.0	29.1	28.0	27.9
Adjusted net margin (%)	17.7	17.5	18.2	18.1	18.2
Return on capital employed (%)	20.1	17.8	19.0	18.1	18.9
Return on equity (%)	19.5	18.9	18.0	18.3	18.9
EFFICIENCY RATIOS					
Asset Turnover	0.8	0.8	0.8	0.8	0.8
Debt to equity	0.1	0.1	0.1	0.1	0.1
Interest coverage	22.0	33.2	25.1	28.9	33.3
Debtor days	99	99	95	95	95
Inventory days	169	166	105	105	105
Payable days	19	29	29	29	29
PER SHARE DATA					
Adjusted EPS (INR)	14.6	15.8	20.4	23.1	26.7
Book value per share (INR)	74.7	83.8	113.2	126.2	141.2
DPS (INR)	6.0	6.0	7.4	8.4	9.7
VALUATION RATIOS					
P/E	31.0	28.5	22.1	19.6	16.9
P/BV	6.0	5.4	4.0	3.6	3.2
EV/EBITDA	21.0	19.6	14.1	12.8	11.2
Dividend Yield (%)	1.3	1.3	1.6	1.9	2.2

Recommendation History

Date	Rating	Target Price	Closing Price
05-Mar-18	ACCUMULATE	560	451*

* Closing price as on 1st March 2018

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

ACCUMULATE: Expected point to point returns of 15% or more

NEUTRAL: Expected point to point returns in the range of -10% and +15%

REDUCE: Expected point to point decline of 10% or more

NOT RATED: Not in regular research coverage

SUSPENDED: The rating as well as the target price has been suspended temporarily. This could be due to events that made coverage impracticable or to comply with applicable regulations and/or company policies.

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