

October 30, 2018

₹ 352

Control Print (CONPRI)

Growth to taper, high valuation limits upside

- Control Print (CPL) reported a muted performance in Q2FY19 with Q2FY19 being the third consecutive quarter of no growth
- Net sales for the quarter came in at ₹ 41.1 crore, down 1% YoY
- EBITDA in Q2FY19 was at ₹ 8.9 crore with corresponding EBITDA margins at 21.7%, down 680 bps YoY. Margins came in substantially lower on account of a decline in share of consumables for the quarter vs. printer system. CPL earns high margins on consumables (>30%) with nearly nil to <10% margins on the printer system
- PAT in Q2FY19 was at ₹ 6.4 crore, down 13.5% YoY. PAT for the quarter was supported by gains (₹ 0.7 crore) on investment book

Growth to taper in FY18-20E, lower double digit growth to prevail

In the past, over FY14-18, CPL's topline has grown at a CAGR of 18%, roughly >2x GDP growth rate, primarily implying healthy demand prospects for the coding and marking industry domestically. It was supported by higher penetration of this coders & markers in niche segments like sugar, dairy, etc. However, in FY19E, growth seems to have tapered down primarily tracking headwinds in its stronghold cement space, which contributed ~15% to its total sales. The management commentary suggests cement player will down trade in the consumables segment thereby using counterfeit products to rationalise costs. This, in turn, resulted in a shift from organised to unorganised segment thereby harming the interest of organised players like CPL. Going forward, given no growth in H1FY19, we expect CPL to clock sales growth of 6.4% in FY19E and 15.0% in FY20E, implying CAGR of 10.6% in FY18-20E.

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 FY18, CPL has a market share of ~19% in the oligopolistic market (valued at ~₹ 900 crore). CPL realises 50% of its revenues from industrial customers and the balance 50% of sales from the packaging sector.

Printer addition healthy, limited scope for margin improvement

CPL has an installed printer base at ~ 9600 printers (H1FY19), which will fetch it a recurring income of ~₹ 125 crore (₹ 1.3 lakh/printer per year). On the consumables front, it formed ~74% of its total sales and has limited scope for further increase thereby limiting its margin improvement trajectory. EBITDA margins in FY18 were at 28.9%, which are gradually expected to soften to 27% in FY20E (25.4% in FY19E).

Slowing growth, decline in margin trajectory, downgrade to HOLD

With industry headwinds, we expect CPL's growth to slow down. We expect sales CAGR of 10.6% in FY18-20E vs. 18% CAGR in FY14-18. This, coupled with a limited increase in share of consumables will also strain EBITDA margins in FY18-20E. Henceforth, return ratios are on a structural decline, eroding our margin of safety and will also limit its valuation multiple. Hence, we downgrade CPL to **HOLD** and value it at ₹ 342 i.e. 14x P/E (1.1x PEG, earnings CAGR of 12.3% over FY18-20E) on FY20E EPS of ₹ 24.4. Balance sheet positives like debt free status, nil incremental capex and RoCE > cost of capital remain at CPL.

Rating matrix		
Rating	:	Hold
Target	:	₹ 342
Target Period	:	12-18 months
Potential Upside	:	-3%

What's changed?	
Target	Changed from ₹ 550 to ₹ 342
EPS FY19E	Changed from ₹ 25.5 to ₹ 20.4
EPS FY20E	Changed from ₹ 30.5 to ₹ 24.4
Rating	Changed from Buy to Hold

Key financials				
₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	145.2	173.9	185.1	212.8
EBITDA	38.3	50.2	47.0	57.5
Net Profit	26.1	31.6	33.4	39.9
EPS (₹)	16.0	19.4	20.4	24.4

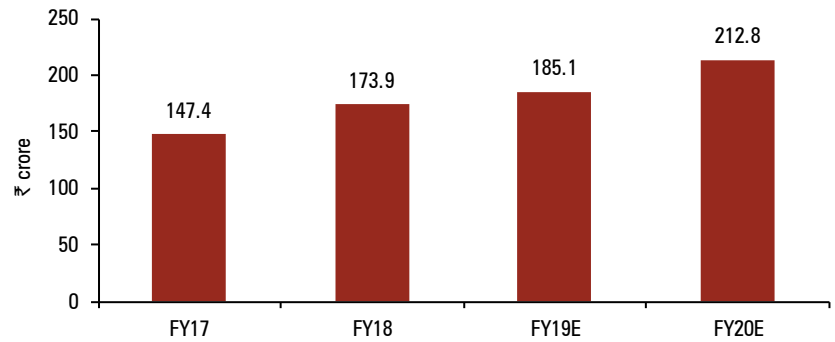
Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	22.0	18.2	17.2	14.4
Target P/E	21.4	17.7	16.8	14.0
EV / EBITDA	15.1	11.1	11.6	9.3
P/BV	4.0	3.0	2.7	2.4
RoNW	19.0	19.0	15.9	17.6
RoCE	20.9	24.6	22.0	26.0
ROIC	22.0	24.2	21.1	24.8

Stock data	
Stock Data	
Market Capitalization	₹ 575 crore
Total Debt (FY18)	₹ 0 crore
Cash and Cash Equivalent (FY18)	₹ 20 crore
EV	₹ 555 crore
52 week H/L	554 / 325
Equity Capital	16.3
Face Value	₹ 10
MF Holding (%)	5.6
FII Holding (%)	10.2

Research Analyst	
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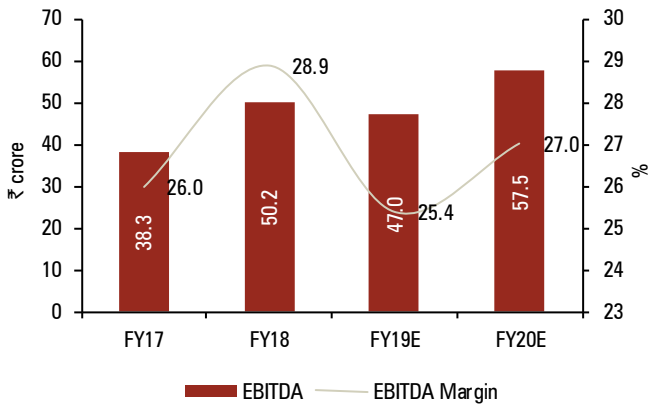
Key Charts: Financials

Exhibit 1: Sales trend (₹ crore)



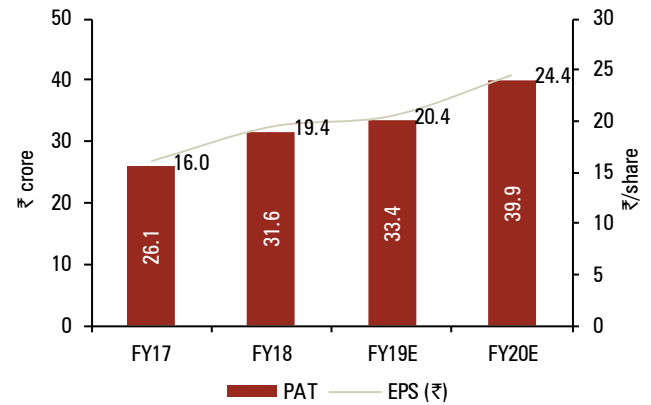
Source: Company, ICICIdirect Research

Exhibit 2: EBITDA & EBITDA margins trend



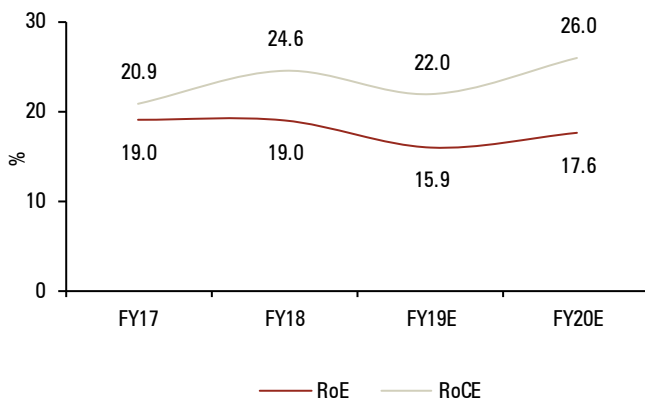
Source: Company, ICICIdirect Research

Exhibit 3: PAT & EPS trend



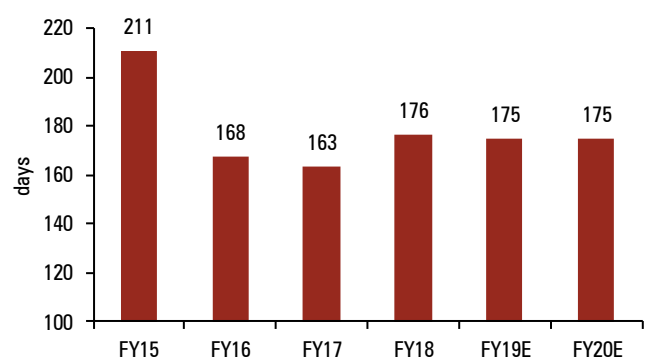
Source: Company, ICICIdirect Research

Exhibit 4: Return ratios profile



Source: Company, ICICIdirect Research

Exhibit 5: Net working capital days trend



Source: Company, ICICIdirect Research

Outlook and valuation

With industry headwinds, we expect CPL's growth to slow down. We expect sales CAGR of 10.6% in FY18-20E vs. 18% CAGR over FY14-18. This, coupled with limited increase in share of consumables will also strain EBITDA margins over FY18-20E. Henceforth, return ratios are on a structural decline, eroding our margin of safety, which will also limit its valuation multiple. Therefore, we downgrade CPL to **HOLD** and value it at ₹ 342 i.e. 14x P/E (1.1x PEG, Earnings CAGR of 12.3% over FY18-20E) on FY20E EPS of ₹ 24.4. Balance sheet positives like debt free status, nil incremental capex and RoCE > cost of capital remain at CPL.

Exhibit 6: What's changed??

Particulars	FY19E			FY20E		
	Old	New	% Change	Old	New	% Change
Sales	202.3	185.1	(8.5)	233.9	212.8	(9.0)
EBITDA	59.2	47.0	(20.6)	69.0	57.5	(16.7)
EBITDA Margin %	29.3	25.4	-393 bps	29.5	27.0	-250 bps
PAT	41.6	33.4	(19.8)	49.8	39.9	(19.8)
EPS	25.5	20.4	(19.8)	30.5	24.4	(19.8)

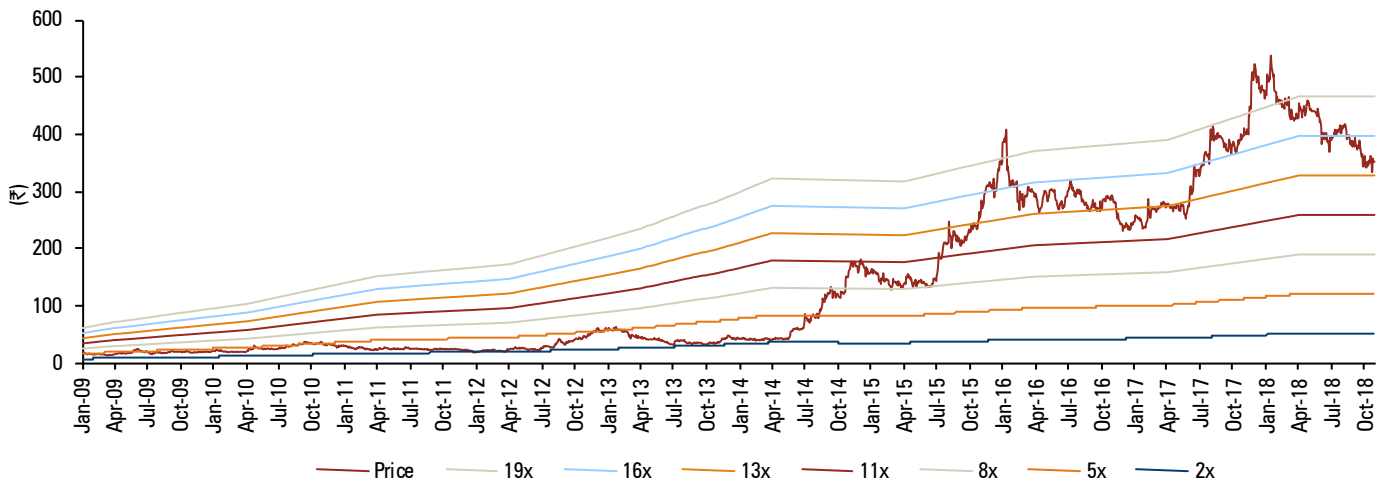
Source: Company, ICICI direct Research

Exhibit 7: Valuation summary

	Sales (₹ cr)	Growth (%)	PAT (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	147.4	9.5	26.1	-1.4	22.0	15.1	19.0	20.9
FY18	173.9	18.0	31.6	21.3	18.2	11.1	19.0	24.6
FY19E	185.1	6.4	33.4	5.4	17.2	11.6	15.9	22.0
FY20E	212.8	15.0	39.9	19.6	14.4	9.3	17.6	26.0

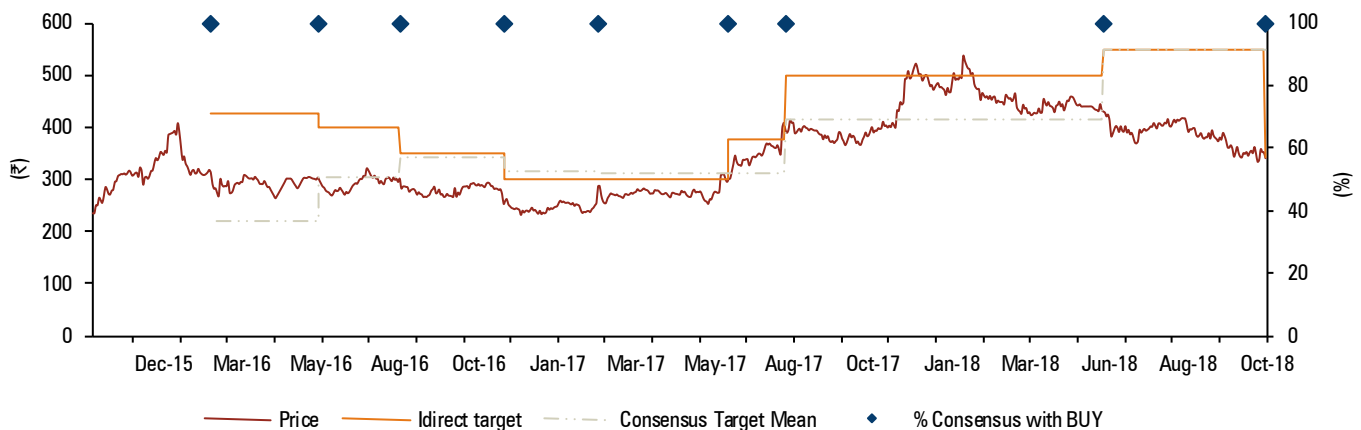
Source: Company, ICICI direct Research

Exhibit 8: Two year forward P/E (CPL currently trading at 14.4x)



Source: Reuters, ICICI direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI direct 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 lose onto ACC-Ambuja. In the MSME segment the company is witnessing good traction in the Dairy, Sugar and Fertilizer segment. The company also commissions new printer manufacturing facility in Guwahati (Assam)

Source: Company, ICICI direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Silver Plastochem Pvt. Ltd.	30-Sep-18	21.77	3.56	0.00
2	Kabra (Shiva)	30-Sep-18	9.62	1.57	0.00
3	Kabra (Pushpa)	30-Sep-18	8.65	1.41	0.00
4	Kabra (Basant Kumar)	30-Sep-18	6.36	1.04	0.35
5	Rahn + Bodmer Co.	30-Sep-18	5.31	0.87	0.00
6	SBI Funds Management Pvt. Ltd.	30-Sep-18	4.35	0.71	0.08
7	Joshi (Ritu)	30-Sep-18	3.33	0.54	0.00
8	Martytime Trimpex Pvt. Ltd.	30-Sep-18	2.20	0.36	0.00
9	Baring Private Equity Asia Ltd.	30-Sep-18	2.17	0.35	0.00
10	Kabra (Basant Kuamr) HUF	30-Jun-18	2.14	0.35	0.00

Source: Reuters, ICICI direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	55.9	55.7	53.5	53.5	53.5
FII	10.6	9.8	9.6	12.1	12.7
DII	1.4	1.5	3.5	4.7	5.6
Others	32.1	33.0	33.4	29.8	28.2

Recent Activity

Buys			Sells		
Investor name	Value (US\$M)	Shares (M)	Investor name	Value (US\$M)	Shares (M)
Kabra (Basant Kumar)	1.65	0.35	Reliance Nippon Life Asset Management Limited	-0.10	-0.02
SBI Funds Management Pvt. Ltd.	0.40	0.08	Sabharwal (Nayana)	-0.01	0.00
L&T Investment Management Limited	0.38	0.07			
Amiral Gestion S.A.	0.36	0.07			

Source: Reuters, ICICI direct Research

Financial summary

Profit and loss statement					₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E					
Net Sales	145.2	173.9	185.1	212.8					
Other Operating Income	2.2	0.0	0.0	0.0					
Total Operating Income	147.4	173.9	185.1	212.8					
Growth (%)	9.5	18.0	6.4	15.0					
Raw Material Expenses	52.0	55.3	64.1	72.4					
Employee Expenses	27.8	33.0	37.4	41.5					
Other Operating Expense	29.3	35.5	36.7	41.5					
Total Operating Expenditure	109.1	123.7	138.2	155.4					
EBITDA	38.3	50.2	47.0	57.5					
Growth (%)	7.9	31.2	-6.4	22.3					
Depreciation	3.8	6.9	7.5	8.0					
Interest	1.1	1.3	0.2	0.2					
Other Income	0.7	0.4	1.3	1.8					
PBT	34.1	42.5	40.6	51.2					
Exceptional Item	0.0	3.9	-1.3	0.0					
Total Tax	8.0	6.9	8.6	11.3					
PAT	26.1	31.6	33.4	39.9					
Growth (%)	-1.4	21.3	5.4	19.6					
EPS (₹)	16.0	19.4	20.4	24.4					

Source: Company, ICICIdirect Research

Cash flow statement					₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E					
Profit after Tax	26.1	31.6	33.4	39.9					
Add: Depreciation	3.8	6.9	7.5	8.0					
(Inc)/dec in Current Assets	-9.8	-21.2	-9.9	-20.7					
Inc/(dec) in CL and Provisions	-0.6	-0.1	0.0	5.9					
Others	1.1	1.3	0.2	0.2					
CF from operating activities	20.6	18.5	31.1	33.2					
(Inc)/dec in Investments	-6.0	-4.2	-10.0	-10.0					
(Inc)/dec in Fixed Assets	1.0	-9.9	-5.0	-5.0					
Others	-2.5	-0.9	-1.0	0.0					
CF from investing activities	-7.6	-15.0	-16.0	-15.0					
Issue/(Buy back) of Equity	0.0	0.7	0.0	0.0					
Inc/(dec) in loan funds	1.6	-14.7	0.0	0.0					
Dividend paid & dividend tax	-11.3	-12.7	-13.7	-15.7					
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0					
Others	-4.2	25.9	-0.9	-0.2					
CF from financing activities	-13.8	-0.9	-14.6	-15.8					
Net Cash flow	-0.8	2.6	0.6	2.4					
Opening Cash	2.0	1.2	3.8	4.4					
Closing Cash	1.2	3.8	4.4	6.8					

Source: Company, ICICIdirect Research

Balance sheet					₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E					
Liabilities									
Equity Capital	15.7	16.3	16.3	16.3					
Reserve and Surplus	121.4	167.5	186.5	210.7					
Total Shareholders funds	137.1	183.9	202.8	227.1					
Total Debt	14.7	0.0	0.0	0.0					
Deferred Tax Liability	14.9	13.0	13.0	13.0					
Minority Interest / Others	0.0	1.0	0.0	0.0					
Total Liabilities	166.7	197.8	215.8	240.0					
Assets									
Gross Block	107.1	114.0	120.0	125.0					
Less: Acc Depreciation	27.0	33.7	41.2	49.1					
Net Block	80.1	80.3	78.8	75.8					
Capital WIP	0.2	2.9	2.0	2.0					
Total Fixed Assets	80.2	83.3	80.8	77.8					
Liquid Investments	12.0	16.2	26.2	36.2					
Other Investments	5.5	5.5	5.5	5.5					
Inventory	54.1	65.5	68.5	78.7					
Debtors	34.2	42.4	45.6	52.5					
Loans and Advances	14.2	15.5	16.7	19.2					
Other Current Assets	0.0	0.0	0.0	0.0					
Cash	1.2	3.8	4.4	6.8					
Total Current Assets	103.7	127.2	135.2	157.1					
Creditors	23.2	23.8	25.4	29.2					
Provisions	12.2	11.4	10.1	11.7					
Current Liabilities & Prov	35.4	35.2	31.8	36.6					
Net Current Assets	68.2	92.0	103.4	120.6					
Others Assets	0.0	0.0	0.0	0.0					
Application of Funds	166.7	197.8	215.8	240.0					

Source: Company, ICICIdirect Research

Key ratios					₹ Crore				
(Year-end March)	FY17	FY18	FY19E	FY20E					
Per share data (₹)									
EPS	16.0	19.4	20.4	24.4					
Cash EPS	19.0	23.6	25.0	29.3					
BV	87.4	112.6	124.2	139.0					
DPS	6.0	6.5	7.0	8.0					
Cash Per Share (Incl Invest)	0.8	2.3	2.7	4.2					
Operating Ratios (%)									
EBITDA Margin	26.0	28.9	25.4	27.0					
PBT / Total Op. income	23.1	24.4	21.9	24.0					
PAT Margin	17.7	18.2	18.0	18.8					
Inventory days	135.9	137.4	135.0	135.0					
Debtor days	85.9	88.9	90.0	90.0					
Creditor days	58.4	49.9	50.0	50.0					
Return Ratios (%)									
RoE	19.0	19.0	15.9	17.6					
RoCE	20.9	24.6	22.0	26.0					
RoIC	22.0	24.2	21.1	24.8					
Valuation Ratios (x)									
P/E	22.0	18.2	17.2	14.4					
EV / EBITDA	15.1	11.1	11.6	9.3					
EV / Net Sales	4.0	3.2	2.9	2.5					
Market Cap / Sales	4.0	3.3	3.1	2.7					
Price to Book Value	4.0	3.0	2.7	2.4					
Solvency Ratios									
Debt/EBITDA	0.4	0.0	0.0	0.0					
Debt / Equity	0.1	0.0	0.0	0.0					
Current Ratio	3.0	3.6	3.9	3.9					
Quick Ratio	1.5	1.8	2.0	2.0					

Source: Company, ICICIdirect Research

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Sell: -10% or more;



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