

## Linc Pen & Plastics

### Performance Highlights

#### Quarterly Data

(₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq
<b>Revenue</b>	<b>87</b>	<b>79</b>	<b>9.9</b>	<b>105</b>	<b>(17.2)</b>
EBITDA	8.4	6	29.9	11	(21.0)
Margin (%)	9.6	8.1	149bp	10.1	(46bp)
<b>Adj. PAT</b>	<b>4</b>	<b>4</b>	<b>17.3</b>	<b>6</b>	<b>(30.2)</b>

Source: Company, Angel Research

For 1QFY2017, Linc Pen & Plastics Ltd (LPPL)' results have come in in line of our estimates on the top-line as well as the bottom-line front. Its top-line grew 10% yoy while on the operating front, the company reported margin improvement, primarily on account of lower raw material costs. Further, the net profit grew by ~17% yoy to ₹4.4cr aided by higher sales growth and a strong operating performance.

**Top-line grew 10% yoy:** The top-line grew by ~10% yoy to ₹87cr on the back of good growth in the domestic as well as the exports segment.

**PAT grew ~17% yoy:** On the operating front, the company reported margin expansion by 149bp yoy to 9.6%, primarily on account of lower raw material costs. The reported net profit grew by ~17% yoy to ₹4.4cr aided by higher sales growth and a strong operating performance.

**Outlook and valuation:** Going ahead, we expect LPPL to report a top-line CAGR of ~10% over FY2016-18E to ~₹420cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~13% CAGR to ₹23cr over FY2016-18E. This would be on account of expansion in operating margin on the back of lower material prices and higher exports (which is a high margin business). **We recommend an Accumulate rating on the stock with a target price of ₹283.**

#### Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
<b>Net sales</b>	<b>318</b>	<b>344</b>	<b>382</b>	<b>420</b>
% chg	1.3	8.1	10.9	10.0
<b>Net profit</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>23</b>
% chg	24.4	27.9	8.7	16.6
EBITDA margin (%)	7.9	9.1	9.3	9.5
<b>EPS (₹)</b>	<b>9.7</b>	<b>12.4</b>	<b>13.5</b>	<b>15.7</b>
P/E (x)	26.9	21.0	19.3	16.5
P/BV (x)	4.4	3.8	3.3	2.9
RoE (%)	16.2	18.0	17.1	17.3
RoCE (%)	18.3	19.2	20.6	21.4
EV/Sales (x)	1.3	1.2	1.1	1.0
EV/EBITDA (x)	15.9	13.2	11.5	10.1

Source: Company, Angel Research, Note: CMP as of August 10, 2016

## ACCUMULATE

CMP	₹260
Target Price	₹283

Investment Period	12 months
-------------------	-----------

#### Stock Info

Sector	Writing Instruments
Market Cap (₹ cr)	36
Net Debt (₹ cr)	16
Beta	1.1
52 Week High / Low	293 / 136
Avg. Daily Volume	4,089
Face Value (₹)	10
BSE Sensex	27,775
Nifty	8,575
Reuters Code	LINC.BO
Bloomberg Code	LPP@IN

#### Shareholding Pattern (%)

Promoters	60.4
MF / Banks / Indian FIs	0.0
FII / NRIs / OCBs	0.2
Indian Public / Others	39.4

Abs. (%)	3m	1yr	3yr
Sensex	7.8	(1.2)	46.6
LPPL	36.1	36.1	622.0

#### 3-year price chart



Source: Company, Angel Research

**Amarjeet S Maurya**

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

**Exhibit 1: Quarterly performance**

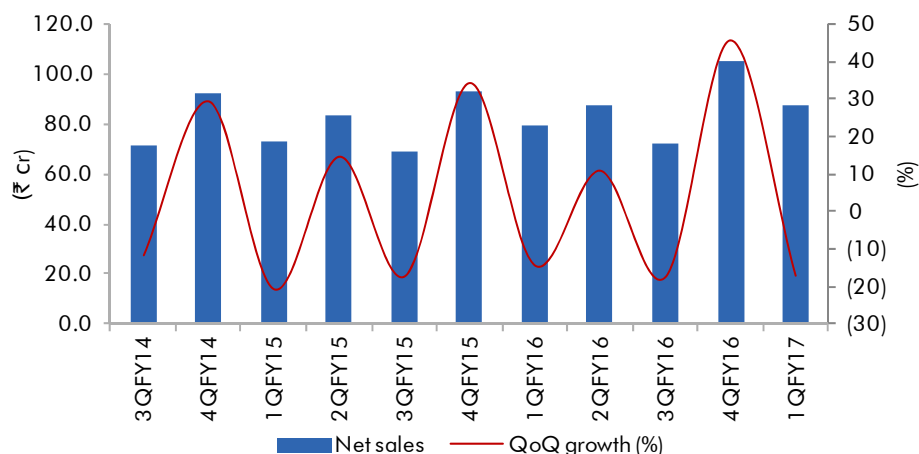
Y/E March (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq	FY2016	FY2015	% chg
<b>Net Sales</b>	<b>87</b>	<b>79</b>	<b>9.9</b>	<b>105</b>	<b>(17.2)</b>	<b>344</b>	<b>318</b>	<b>8.1</b>
Consumption of RM	55	51	8.3	66	(16.9)	219	210	4.0
(% of Sales)	63.5	64.4		63.3		63.6	66.1	
Staff Costs	5	4	3.8	5	(11.8)	19	17	6.2
(% of Sales)	5.2	5.5		4.9		5.4	5.5	
Operating Expense	19	17	8.5	23	(17.5)	75	65	15.7
(% of Sales)	21.6	21.9		21.7		21.9	20.5	
<b>Total Expenditure</b>	<b>79</b>	<b>73</b>	<b>8.1</b>	<b>94</b>	<b>(16.8)</b>	<b>313</b>	<b>293</b>	<b>6.7</b>
<b>Operating Profit</b>	<b>8</b>	<b>6</b>	<b>29.9</b>	<b>11</b>	<b>(21.0)</b>	<b>31</b>	<b>25</b>	<b>24.2</b>
OPM (%)	9.6	8.1		10.1		9.1	7.94	
Interest	1	0	166.6	1	(21.2)	2	1	3.4
Depreciation	2	2	21.9	2	17.2	6	6	1.7
Other Income	0	0	82.0	1	(97.3)	1	0	155.2
<b>PBT</b>	<b>6</b>	<b>5</b>	<b>26.6</b>	<b>9</b>	<b>(33.4)</b>	<b>25</b>	<b>18</b>	<b>35.3</b>
(% of Sales)	6.9	6.0		8.5		7.2	5.7	
Provision for Taxation	2	1	61.9	3	(40.8)	6	4	62.5
(% of PBT)	26.6	20.8		29.9		25.7	21.4	
Minority Interest	0	0		0		0	0	
<b>Reported PAT</b>	<b>4.4</b>	<b>3.7</b>	<b>17.3</b>	<b>6</b>	<b>(30.2)</b>	<b>18</b>	<b>14</b>	<b>27.9</b>
PATM	5.0	4.7		6.0		5.3	4.5	

Source: Company, Angel Research

### Top-line grows 10% yoy

The top-line grew by ~10% yoy to ₹87cr, with the company posting good growth in the domestic as well as the exports segment.

**Exhibit 2: Top-line growth trend**

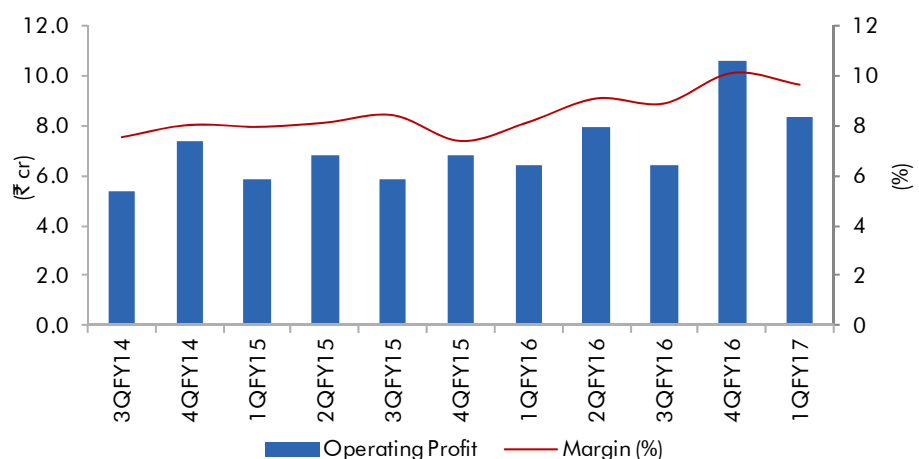


Source: Company, Angel Research

### Operating margin expansion due to falling material prices

On the operating front, the company reported margin expansion by 149bp yoy to 9.6%, primarily on account of lower material and staff costs as a percentage of sales.

**Exhibit 3: Operating profit and margin trend**

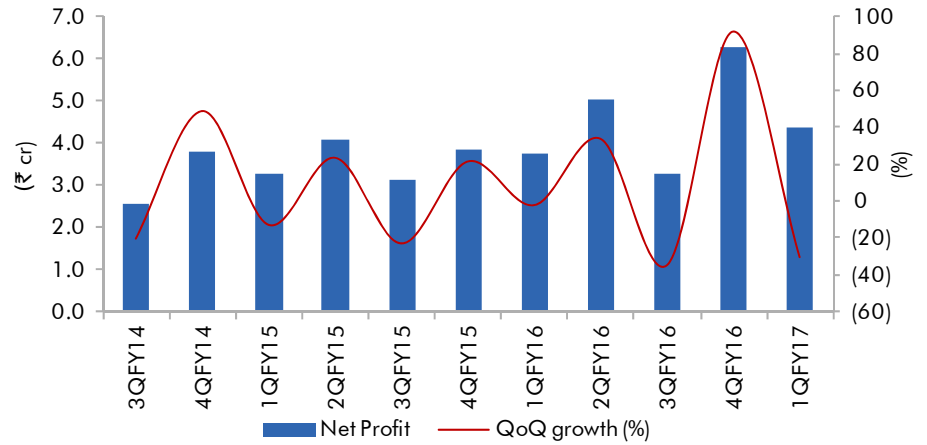


Source: Company, Angel Research

**PAT grew ~17% yoy**

The reported net profit grew by ~17% yoy to ₹4.4cr aided by higher sales growth and a strong operating performance.

**Exhibit 4: Net Profit and growth trend**



Source: Company, Angel Research

## **Investment rationale**

### **Lower raw material price and product mix change to expand margins**

Going forward, we believe that the company would be able to increase its margins owing to soft raw material prices including that of high density polyethylene, polyethylene, nylon etc. which are linked to crude prices. Also, the company is now targeting higher margin segments like >₹10 pens.

### **Increased focus on western & southern regions coupled with recovery in export business to accelerate top-line growth**

We expect LPPL to report a healthy recovery and post a top-line CAGR of ~10% over FY2016-18E, on the back of various triggers. These include (a) its increased focus on southern and western regions which should contribute additionally to the overall top-line, (b) it enjoys a strong brand recall and is consistently incurring significant ad spends to boost sales growth which has enabled it to capture a market share of 10%, (c) an expected recovery in exports (d) the company's strong distribution network coupled with continuous new product launches.

## Outlook and valuation

Going ahead, we expect LPPL to report a top-line CAGR of ~10% over FY2016-18E to ~₹420cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~13% CAGR to ₹23cr over FY2016-18E. This would be on account of expansion in operating margin on the back of lower material prices and higher exports (which is a high margin business). **We recommend an Accumulate rating on the stock with a target price of ₹283.**

## Company Background

LPPL is an India-based company engaged in writing instruments and stationery business. Its stationery products include pencils (wooden and disposable), sketch pens, geometry boxes and erasers. The company's domestic pens portfolio is divided into ball point pens and gel pens, and comprises of brands like Signature, Ivy, Royale, Carbon, Elegant, Sleek, Siren and Soffy. Its international pens include Gliss, Flotech, Gripex, Mission, Orion, Safron Ball, Smartex, Success and Topper. The company uses plastic granules, ball pen tips, ink, packaging material, springs and stamping foil as its raw materials. Its manufacturing facilities are located in Falta (SEZ) and Serakole, both located on the outskirts of Kolkata, and its products are sold in over 45 countries.

**Profit & Loss Statement**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Total operating income</b>	<b>305</b>	<b>314</b>	<b>318</b>	<b>344</b>	<b>382</b>	<b>420</b>
% chg	11.0	2.9	1.3	8.1	10.9	10.0
<b>Total Expenditure</b>	<b>292</b>	<b>292</b>	<b>293</b>	<b>313</b>	<b>346</b>	<b>380</b>
Cost of Materials	216	216	210	219	245	269
Personnel Expenses	16	17	17	19	21	24
Others Expenses	60	60	65	75	79	86
<b>EBITDA</b>	<b>14</b>	<b>22</b>	<b>25</b>	<b>31</b>	<b>35</b>	<b>40</b>
% chg	34.4	62.1	14.5	24.3	13.0	12.4
(% of Net Sales)	4.5	7.0	7.9	9.1	9.3	9.5
Depreciation & Amortisation	4	5	6	6	6	7
<b>EBIT</b>	<b>9</b>	<b>17</b>	<b>19</b>	<b>25</b>	<b>29</b>	<b>33</b>
% chg	56.8	86.1	14.1	31.1	14.6	13.7
(% of Net Sales)	3.0	5.4	6.1	7.4	7.6	7.9
Interest & other Charges	2	2	1	2	3	2
Other Income	0	0	0	1	0	0
(% of PBT)	5.4	0.6	1.6	3.0	1.1	1.0
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>7</b>	<b>15</b>	<b>18</b>	<b>25</b>	<b>27</b>	<b>31</b>
% chg	220.0	109.2	23.6	35.3	9.3	16.6
Prior Period & Extraord. Exp./ (Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>7</b>	<b>15</b>	<b>18</b>	<b>25</b>	<b>27</b>	<b>31</b>
Tax	2	3	4	6	7	8
(% of PBT)	23.0	21.9	21.4	25.6	26.0	26.0
<b>PAT (reported)</b>	<b>5</b>	<b>12</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>23</b>
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>5</b>	<b>12</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>23</b>
<b>ADJ. PAT</b>	<b>5</b>	<b>12</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>23</b>
% chg	218.8	112.4	24.4	27.9	8.7	16.6
(% of Net Sales)	1.8	3.7	4.5	5.3	5.2	5.5
<b>Basic EPS (₹)</b>	<b>3.7</b>	<b>7.8</b>	<b>9.7</b>	<b>12.4</b>	<b>13.5</b>	<b>15.7</b>
<b>Fully Diluted EPS (₹)</b>	<b>3.7</b>	<b>7.8</b>	<b>9.7</b>	<b>12.4</b>	<b>13.5</b>	<b>15.7</b>
% chg	218.8	112.4	24.4	27.9	8.7	16.6

**Balance Sheet**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	15	15	15	15	15	15
Reserves & Surplus	56	64	73	87	102	120
<b>Shareholders Funds</b>	<b>71</b>	<b>79</b>	<b>88</b>	<b>102</b>	<b>116</b>	<b>135</b>
Minority Interest	-	-	-	-	-	-
Total Loans	32	34	18	31	25	20
Deferred Tax Liability	2	2	2	2	2	2
<b>Total Liabilities</b>	<b>104</b>	<b>115</b>	<b>108</b>	<b>135</b>	<b>144</b>	<b>157</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	61	68	72	77	82	87
Less: Acc. Depreciation	32	35	41	47	54	60
<b>Net Block</b>	<b>29</b>	<b>33</b>	<b>30</b>	<b>29</b>	<b>28</b>	<b>26</b>
Capital Work-in-Progress	0	1	0	14	14	14
<b>Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Current Assets	118	123	117	135	157	179
Inventories	66	70	64	74	80	89
Sundry Debtors	44	41	40	45	49	54
Cash	0	0	2	0	2	3
Loans & Advances	5	6	5	8	12	17
Other Assets	3	5	7	8	13	17
Current liabilities	44	42	40	45	56	65
<b>Net Current Assets</b>	<b>75</b>	<b>81</b>	<b>77</b>	<b>91</b>	<b>101</b>	<b>115</b>
Deferred Tax Asset	0	0	0	0	0	0
<b>Total Assets</b>	<b>104</b>	<b>115</b>	<b>108</b>	<b>135</b>	<b>144</b>	<b>157</b>



**Cashflow Statement**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	7	15	18	25	27	31
Depreciation	4	5	6	6	6	7
Change in Working Capital	(12)	(8)	5	(15)	(9)	(13)
Interest / Dividend (Net)	2	2	1	2	3	2
Direct taxes paid	(1)	(3)	(5)	(6)	(7)	(8)
Others	(0)	1	(0)	-	-	-
<b>Cash Flow from Operations</b>	<b>1</b>	<b>11</b>	<b>25</b>	<b>11</b>	<b>20</b>	<b>19</b>
(Inc.)/ Dec. in Fixed Assets	(40)	(1)	(4)	(19)	(5)	(4)
(Inc.)/ Dec. in Investments	(35)	8	-	-	-	1
<b>Cash Flow from Investing</b>	<b>(5)</b>	<b>(9)</b>	<b>(4)</b>	<b>(19)</b>	<b>(5)</b>	<b>(5)</b>
Issue of Equity	20	-	-	-	-	-
Inc./(Dec.) in loans	(11)	2	(15)	13	(6)	(5)
Dividend Paid (Incl. Tax)	(1)	(2)	(3)	(5)	(5)	(6)
Interest / Dividend (Net)	(3)	(3)	(1)	(2)	(3)	(2)
<b>Cash Flow from Financing</b>	<b>5</b>	<b>(2)</b>	<b>(20)</b>	<b>7</b>	<b>(14)</b>	<b>(13)</b>
Inc./(Dec.) in Cash	0	(0)	1	(1)	2	1
<b>Opening Cash balances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>
<b>Closing Cash balances</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>3</b>

**Key Ratios**

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	70.9	33.4	26.9	21.0	19.3	16.5
P/CEPS	38.9	23.2	19.1	15.8	14.6	12.8
P/BV	5.4	4.9	4.4	3.8	3.3	2.9
Dividend yield (%)	0.6	0.8	1.0	1.2	1.3	1.6
EV/Sales	1.4	1.3	1.3	1.2	1.1	1.0
EV/EBITDA	30.5	18.9	15.9	13.2	11.5	10.1
EV / Total Assets	2.8	2.7	2.7	2.3	2.0	1.8
<b>Per Share Data (₹)</b>						
EPS (Basic & fully diluted)	3.7	7.8	9.7	12.4	13.5	15.7
EPS (Adjusted)	3.7	7.8	9.7	12.4	13.5	15.7
Cash EPS	6.7	11.2	13.6	16.4	17.8	20.3
DPS	1.5	2.0	2.5	3.2	3.5	4.1
Book Value	47.7	53.2	59.6	68.8	78.7	91.0
<b>Returns (%)</b>						
ROCE	9.0	15.2	18.3	19.2	20.6	21.4
Angel ROIC (Pre-tax)	9.0	15.2	18.6	19.2	20.9	21.9
ROE	7.7	14.6	16.2	18.0	17.1	17.3
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	5.0	4.6	4.4	4.5	4.7	4.8
Inventory / Sales (days)	79	82	73	79	77	77
Receivables (days)	53	48	46	48	47	47
Payables (days)	33	28	25	25	28	30
WC cycle (ex-cash) (days)	99	101	94	102	96	94

Research Team Tel: 022 - 39357800

 E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

 Website: [www.angelbroking.com](http://www.angelbroking.com)

## DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

### Disclosure of Interest Statement

### Linc Pen & Plastics

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)