

Linc Pen & Plastics

Performance Highlights

Quarterly Data

(₹ cr)	2QFY16	2QFY15	% yoy	1QFY16	% qoq
Revenue	88	84	4.9	79	10.8
EBITDA	8.0	7	17.3	6	23.3
Margin (%)	9.1	8.1	96	8.1	92
Adj. PAT	5	4	23.2	4	33.7

Source: Company, Angel Research

Linc Pen & Plastics (LPPL)'s 2QFY2016 results outperformed our estimates on the bottom-line front. The company's top-line for the quarter grew 5% yoy. On the operating front, the company reported margin improvement, primarily on account of lower raw material costs. Further, on the bottom-line front, the company reported a strong growth on account of a favorable operating performance and lower interest costs.

Top-line grew ~5%: The company's top-line grew by ~5% yoy to ~₹88cr (which is below our estimates of ~₹89cr), mainly due to lower growth in Domestic (5.0% yoy growth to ~₹64cr) and Export sales (4.6% yoy growth to ~₹24cr). Exports have recovered considering the segment posted a decline of 5% in FY2015.

PAT grew ~23% yoy: The reported net profit grew by ~23% yoy to ~₹5cr (our estimate was of ~₹4cr) on account of falling material prices and lower interest costs with the company having repaid a significant amount of its debt in FY2015.

Outlook and valuation: Going ahead, we expect LPPL to report a top-line CAGR of ~8% over FY2015-17E to ~₹371cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~17% CAGR over FY2015-17E. 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. Further, the company has reduced its debt significantly, which will lead to cost saving for the company. At the current market price, LPPL trades at a P/E of 12.5x its FY2017E EPS. **We recommend an Accumulate rating on the stock, with a target price of ₹185.**

Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	314	318	340	371
% chg	2.9	1.3	6.7	9.2
Net profit	12	14	16	20
% chg	112.4	24.4	11.8	22.1
EBITDA margin (%)	7.0	7.9	8.3	8.9
EPS (₹)	7.8	9.7	10.8	13.2
P/E (x)	21.2	17.0	15.2	12.5
P/BV (x)	3.1	2.8	2.4	2.1
RoE (%)	14.6	16.2	16.0	17.1
RoCE (%)	15.2	18.3	19.0	20.3
EV/Sales (x)	0.9	0.8	0.8	0.7
EV/EBITDA (x)	12.6	10.3	9.1	7.7

Source: Company, Angel Research, Note: CMP as of November 16, 2015

ACCUMULATE

CMP	₹165
Target Price	₹185

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

Stock Info

Sector	Writing Instruments
Market Cap (₹ cr)	243
Net Debt (₹ cr)	16
Beta	1.1
52 Week High / Low	219 / 121
Avg. Daily Volume	4,414
Face Value (₹)	10
BSE Sensex	25,760
Nifty	7,807
Reuters Code	LINC.BO
Bloomberg Code	LPP@IN

Shareholding Pattern (%)

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

Abs. (%)	3m	1yr	3yr
Sensex	(6.6)	(8.3)	38.1
LPPL	(0.3)	30.3	244.3

3-year price chart



Source: Company, Angel Research

Amarjeet S Maurya

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

Exhibit 1: Quarterly performance

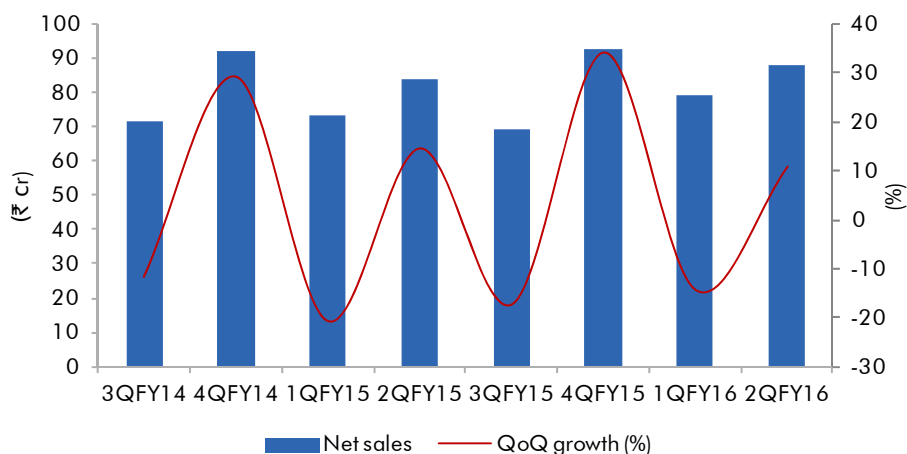
Y/E March (₹ cr)	2QFY16	2QFY15	% yoy	1QFY16	% qoq	1HFY16	1HFY15	% chg
Net Sales	88	84	4.9	79	10.8	167	157	6.5
Consumption of RM	56	58	(2.4)	51	10.3	107	106	1.6
(% of Sales)	64.1	68.9		64.4		64.3	67.4	
Staff Costs	5	4	17.0	4	5.8	9	8	14.9
(% of Sales)	5.3	4.7		5.5		5.4	5.0	
Operating Expense	19	15	23.7	17	8.9	36	31	18.2
(% of Sales)	21.5	18.2		21.9		21.7	19.5	
Total Expenditure	80	77	3.8	73	9.7	153	144	5.9
Operating Profit	8	7	17.3	6	23.3	14	13	14.2
OPM (%)	9.1	8.1		8.1		8.6	8.0	
Interest	0	0	(50.2)	0	(28.9)	0	1	
Depreciation	1	1	(3.8)	2	(8.9)	3	3	2.5
Other Income	0	0	347.0	0	347.0	0	0	25.0
PBT	6	5	27.9	5	36.6	11	9	23.1
(% of Sales)	7.4	6.0		6.0		6.7	5.8	
Provision for Taxation	1	1	47.7	1	47.7	2	2	41.3
(% of PBT)	22.4	19.4		20.7		21.7	18.9	
Minority Interest								
Reported PAT	5	4	23.2	4	33.7	9	7	18.9
PATM	5.7	4.9		4.7		5.2	4.7	

Source: Company, Angel Research

Top-line grows 5% yoy

The company's top-line grew by ~5% yoy to ~₹88cr (which is below our estimate of ~₹89cr), mainly due to lower growth in Domestic (5.0% yoy growth to ~₹64cr) and Export sales (4.6% yoy growth to ~₹24cr). However, we have seen strong recovery on the export front as the company had posted a decline in exports of 5% in FY2015.

Exhibit 2: Top-line growth trend

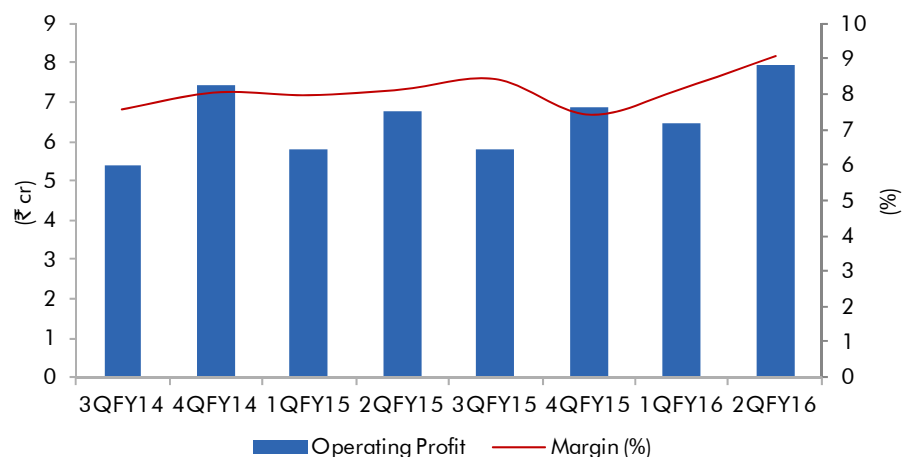


Source: Company, Angel Research

Operating margin expansion due to falling material prices

On the operating front, the company reported margin improvement by 96bp yoy to 9.1%, primarily on account of lower raw material costs.

Exhibit 3: Operating profit and margin trend

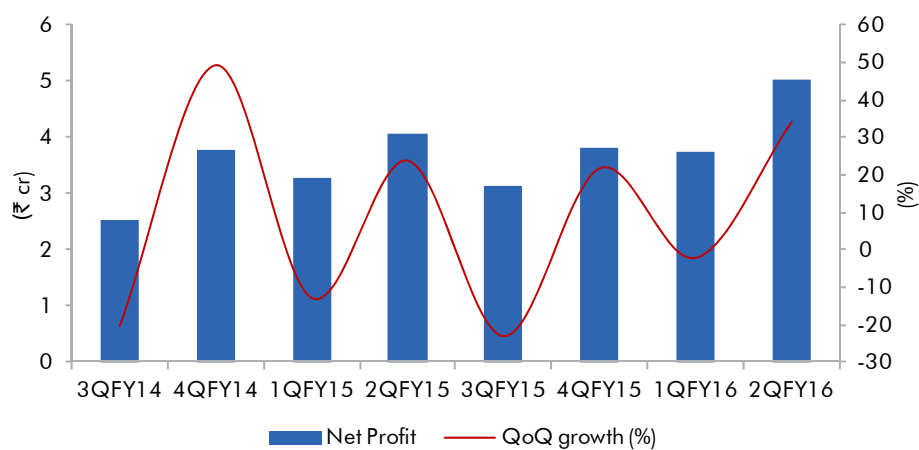


Source: Company, Angel Research

PAT grew ~23% yoy

The reported net profit grew by ~23% yoy to ~₹5cr (our estimate was of ~₹4cr) on account of falling material prices and lower interest costs with the company having repaid a significant amount of its debt in FY2015.

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 easing 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.

Continuous debt repayment & improving return ratios

The company is continuously generating better cash flows, which has resulted in debt reduction and improvement in ROE. The company has been consistently repaying debt over the past four years, resulting in debt having come down from ~₹43cr in FY2012 to ₹18cr in FY2015. Going forward, we believe the company will continue repaying debt with strong cash flows, which in turn will lead to reduction in interest cost. The interest cost has reduced from ~₹3.8cr in FY2012 to ~₹1.5cr in FY2015. A lower interest expense in turn will lead to higher profitability for the company. Further the company's ROE has improved from 3.6% in FY2012 to 16.2% in FY2015.

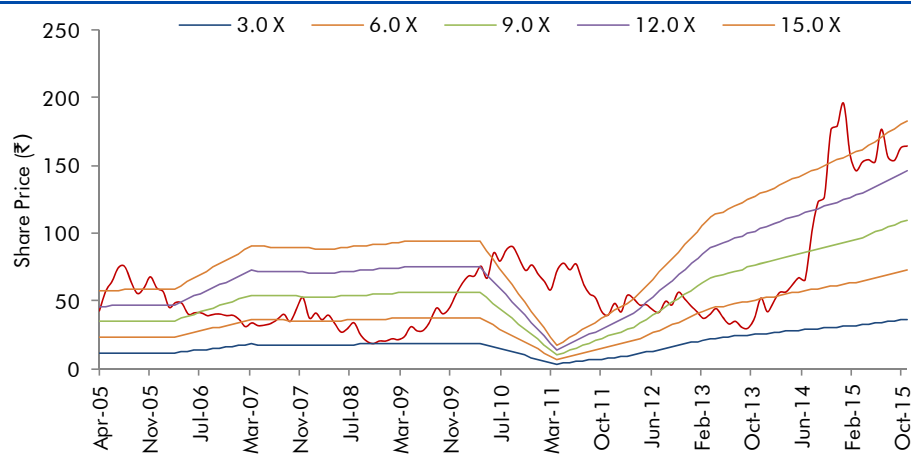
Increased focus on western & southern regions coupled with recovery in export business to accelerate top-line growth

We expect LPPL to report a healthy recovery and post a top-line CAGR of ~8% over FY2015-17E, on the back of various triggers. These include (a) the company's increased focus on southern and western regions (which contributed by less than 25% to the total revenue in FY2015) should contribute additionally to the overall top-line, (b) the company has a market share of 10% with a strong brand recall. Further, the company is incurring significant ad spends to boost sales growth, (c) an expected recovery in exports. The geographies where the company exported were affected due to political turmoil/socioeconomic crises in FY2015; the crisis has now been resolved (d) the company's strong distribution network coupled with continuous new product launches, should aid the top-line

Outlook and valuation

Going ahead, we expect LPPL to report a top-line CAGR of ~8% over FY2015-17E to ~₹371cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~17% CAGR over FY2015-17E. 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. Further, the company has reduced its debt significantly, which will lead to cost saving for the company. At the current market price, LPPL trades at a P/E of 12.5x its FY2017E EPS. **We recommend an Accumulate rating on the stock, with a target price of ₹185.**

Exhibit 5: One-year forward P/E band



Source: Company, Angel Research

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 market 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)	FY12	FY13	FY14	FY15	FY16E	FY17E
Total operating income	275	305	314	318	340	371
% chg	8.4	11.0	2.9	1.3	6.7	9.2
Total Expenditure	265	292	292	293	311	338
Cost of Materials	196	216	216	210	225	245
Personnel Expenses	15	16	17	17	19	21
Others Expenses	54	60	60	65	68	72
EBITDA	10	14	22	25	28	33
% chg	(37.2)	34.4	62.1	14.5	11.6	17.1
(% of Net Sales)	3.7	4.5	7.0	7.9	8.3	8.9
Depreciation & Amortisation	4	4	5	6	6	7
EBIT	6	9	17	19	22	26
% chg	(53.4)	56.8	86.1	14.1	12.7	20.1
(% of Net Sales)	2.1	3.0	5.4	6.1	6.4	7.1
Interest & other Charges	4	2	2	1	2	2
Other Income	0	0	0	0	0	0
(% of PBT)	6.8	5.4	0.6	1.6	1.5	1.2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	2	7	15	18	21	25
% chg	(79.7)	220.0	109.2	23.6	12.7	22.1
Prior Period & Extraord. Exps./ (Inc.)	-	-	-	-	-	-
PBT (reported)	2	7	15	18	21	25
Tax	1	2	3	4	5	6
(% of PBT)	22.7	23.0	21.9	21.4	22.0	22.0
PAT (reported)	2	5	12	14	16	20
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	2	5	12	14	16	20
ADJ. PAT	2	5	12	14	16	20
% chg	(79.8)	218.8	112.4	24.4	11.8	22.1
(% of Net Sales)	0.6	1.8	3.7	4.5	4.7	5.3
Basic EPS (₹)	1.1	3.7	7.8	9.7	10.8	13.2
Fully Diluted EPS (₹)	1.1	3.7	7.8	9.7	10.8	13.2
% chg	(79.8)	218.8	112.4	24.4	11.8	22.1

Balance Sheet

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS						
Equity Share Capital	13	15	15	15	15	15
Reserves & Surplus	35	56	64	73	85	100
Shareholders Funds	48	71	79	88	100	114
Minority Interest	-	-	-	-	-	-
Total Loans	43	32	34	18	15	15
Deferred Tax Liability	2	2	2	2	2	2
Total Liabilities	92	104	115	108	117	132
APPLICATION OF FUNDS						
Gross Block	55	61	68	72	77	82
Less: Acc. Depreciation	28	32	35	41	48	54
Net Block	28	29	33	30	29	27
Capital Work-in-Progress	1	0	1	0	0	0
Investments	-	-	-	-	-	-
Current Assets	104	118	123	117	131	150
Inventories	63	66	70	64	67	73
Sundry Debtors	33	44	41	40	43	46
Cash	0	0	0	2	4	6
Loans & Advances	5	5	6	5	7	12
Other Assets	3	3	5	7	10	13
Current liabilities	40	44	42	40	43	46
Net Current Assets	64	75	81	77	87	104
Deferred Tax Asset	0	0	0	0	0	0
Total Assets	92	104	115	108	117	132

Cashflow Statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	2	7	15	18	21	25
Depreciation	4	4	5	6	6	7
Change in Working Capital	3	(12)	(8)	5	(8)	(14)
Interest / Dividend (Net)	4	2	2	1	2	2
Direct taxes paid	(2)	(1)	(3)	(5)	(5)	(6)
Others	(0)	(0)	1	(0)	-	-
Cash Flow from Operations	11	1	11	25	16	14
(Inc.)/ Dec. in Fixed Assets	(36)	(40)	(1)	(4)	(5)	(5)
(Inc.)/ Dec. in Investments	(30)	(35)	8	-	-	-
Cash Flow from Investing	(6)	(5)	(9)	(4)	(5)	(5)
Issue of Equity	-	20	-	-	-	-
Inc./(Dec.) in loans	1	(11)	2	(15)	(3)	-
Dividend Paid (Incl. Tax)	(2)	(1)	(2)	(3)	(4)	(5)
Interest / Dividend (Net)	(4)	(3)	(3)	(1)	(2)	(2)
Cash Flow from Financing	(5)	5	(2)	(20)	(9)	(7)
Inc./(Dec.) in Cash	0	0	(0)	1	2	3
Opening Cash balances	0	0	0	0	2	4
Closing Cash balances	0	0	0	2	4	6

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	143.6	45.0	21.2	17.0	15.2	12.5
P/CEPS	40.7	24.7	14.7	12.1	10.9	9.3
P/BV	5.1	3.5	3.1	2.8	2.4	2.1
Dividend yield (%)	0.6	0.9	1.2	1.5	1.7	2.1
EV/Sales	1.0	0.9	0.9	0.8	0.8	0.7
EV/EBITDA	28.3	20.2	12.6	10.3	9.1	7.7
EV / Total Assets	2.2	1.9	1.8	1.8	1.6	1.4
Per Share Data (₹)						
EPS (Basic & fully diluted)	1.1	3.7	7.8	9.7	10.8	13.2
EPS (Adjusted)	1.1	3.7	7.8	9.7	10.8	13.2
Cash EPS	4.1	6.7	11.2	13.6	15.1	17.8
DPS	1.0	1.5	2.0	2.5	2.8	3.4
Book Value	32.2	47.7	53.2	59.6	67.6	77.4
Returns (%)						
ROCE	6.4	9.0	15.2	18.3	19.0	20.3
Angel ROIC (Pre-tax)	6.5	9.0	15.2	18.6	19.7	21.3
ROE	3.6	7.7	14.6	16.2	16.0	17.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	5.0	5.0	4.6	4.4	4.4	4.5
Inventory / Sales (days)	84	79	82	73	72	72
Receivables (days)	44	53	48	46	46	45
Payables (days)	35	33	28	25	25	24
WC cycle (ex-cash) (days)	93	99	101	94	93	93

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: 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 of India 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 including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst. 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. Angel/analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market making activity of the company covered by Analyst.

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.

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.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Linc Pen & Plastics
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

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%)
--	-------------	--	-------------------------------------