

## Linc Pen & Plastics

### Performance Highlights

#### Quarterly Data

(₹ cr)	4QFY16	4QFY15	% yoy	3QFY16	% qoq
Revenue	105	93	13.4	72	45.5
EBITDA	10.6	7	54.6	6	65.2
Margin (%)	10.1	7.4	268bp	8.9	120bp
Adj. PAT	6	4	64.7	3	92.2

Source: Company, Angel Research

For 4QFY2016, Linc Pen & Plastics Ltd (LPPL) outperformed our estimates on both the top-line and the bottom-line front. The company's top-line for the quarter grew 13% yoy. On the operating front, the company reported margin improvement, primarily on account of lower raw material costs. Further, the net profit grew by ~65% yoy to ₹6.3cr aided by higher sales growth and a strong operating performance.

**Top-line grew ~13% yoy:** The top-line for the quarter grew by ~13% yoy to ₹105cr, with the company posting good growth in the domestic (~6% yoy to ₹68cr) as well as the exports segment (~30% yoy to ₹37cr).

**PAT grew ~4% yoy:** On the operating front, the company reported margin expansion by 268bp yoy to 10.1%, primarily on account of lower raw material costs. The reported net profit grew by ~65% yoy to ₹6.3cr 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 ₹416cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~9% CAGR to ₹22cr 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 a Buy rating on the stock with a target price of ₹235.**

#### Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	318	344	382	416
% chg	1.3	8.1	10.9	9.0
Net profit	14	18	19	22
% chg	24.4	27.9	5.7	12.3
EBITDA margin (%)	7.9	9.1	9.1	9.1
EPS (₹)	9.7	12.4	13.1	14.7
P/E (x)	21.0	16.4	15.5	13.8
P/BV (x)	3.4	3.0	2.6	2.3
RoE (%)	16.2	18.0	16.7	16.3
RoCE (%)	18.3	19.2	20.1	20.3
EV/Sales (x)	1.0	1.0	0.8	0.8
EV/EBITDA (x)	12.5	10.5	9.3	8.4

Source: Company, Angel Research, Note: CMP as of May 25, 2016

## BUY

CMP	₹203
Target Price	₹235

Investment Period	12 months
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Stock Info	
Sector	Writing Instruments
Market Cap (₹ cr)	288
Net Debt (₹ cr)	16
Beta	1.1
52 Week High / Low	243 / 146
Avg. Daily Volume	10,582
Face Value (₹)	10
BSE Sensex	24,617
Nifty	7,489
Reuters Code	LINC.BO
Bloomberg Code	LPP@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian FIIs	0.0
FII / NRIs / OCBs	0.2
Indian Public / Others	39.4

Abs. (%)	3m	1yr	3yr
Sensex	(6.4)	(14.7)	25.2
LPPL	19.9	3.9	352.9

#### 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)	4QFY16	4QFY15	% yoy	3QFY16	% qoq	FY2016	FY2015	% chg
<b>Net Sales</b>	<b>105</b>	<b>93</b>	<b>13.4</b>	<b>72</b>	<b>45.5</b>	<b>344</b>	<b>318</b>	<b>8.1</b>
Consumption of RM	66	61	9.8	45	47.8	219	210	4.0
(% of Sales)	63.3	65.4		62.3		63.6	66.1	
Staff Costs	5	5	(2.8)	4	18.6	19	17	6.2
(% of Sales)	4.9	5.7		6.0		5.4	5.5	
Operating Expense	23	20	14.7	16	38.6	75	65	15.7
(% of Sales)	21.7	21.5		22.8		21.9	20.5	
<b>Total Expenditure</b>	<b>94</b>	<b>86</b>	<b>10.2</b>	<b>66</b>	<b>43.6</b>	<b>313</b>	<b>293</b>	<b>6.7</b>
<b>Operating Profit</b>	<b>11</b>	<b>7</b>	<b>54.6</b>	<b>6</b>	<b>65.2</b>	<b>31</b>	<b>25</b>	<b>24.2</b>
OPM (%)	10.1	7.4		8.9		9.1	7.94	
Interest	1	0	51.1	0	52.8	2	1	3.4
Depreciation	2	1	6.0	1	7.4	6	6	1.7
Other Income	1	0	252.6	0	7,262.6	1	0	155.2
<b>PBT</b>	<b>9</b>	<b>5</b>	<b>76.6</b>	<b>4</b>	<b>100.1</b>	<b>25</b>	<b>18</b>	<b>35.3</b>
(% of Sales)	8.5	5.5		6.2		7.2	5.7	
Provision for Taxation	3	1	112.7	1	121.4	6	4	62.5
(% of PBT)	29.9	24.8		27.0		25.7	21.4	
Minority Interest								
<b>Reported PAT</b>	<b>6</b>	<b>4</b>	<b>64.7</b>	<b>3</b>	<b>92.2</b>	<b>18</b>	<b>14</b>	<b>27.9</b>
PATM	6.0	4.1		4.5		5.3	4.5	

Source: Company, Angel Research

### Top-line grows 13% yoy

The top-line for the quarter grew by ~13% yoy to ~₹105cr, with the company posting good growth in the domestic (~6% yoy to ₹68cr) as well as the exports segment (~30% yoy to ₹37cr).

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

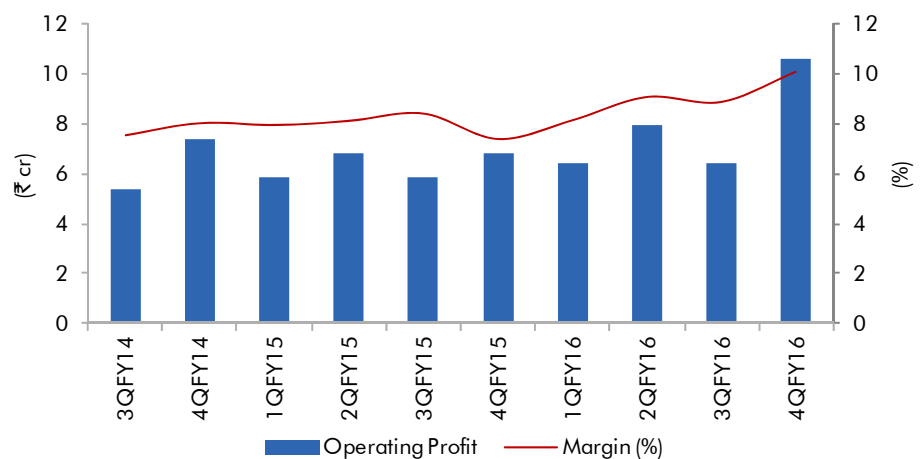


Source: Company, Angel Research

### Operating margin expansion due to falling material prices

On the operating front, the company reported margin expansion (up by 268bp yoy to 10.1%), primarily on account of lower raw material costs.

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

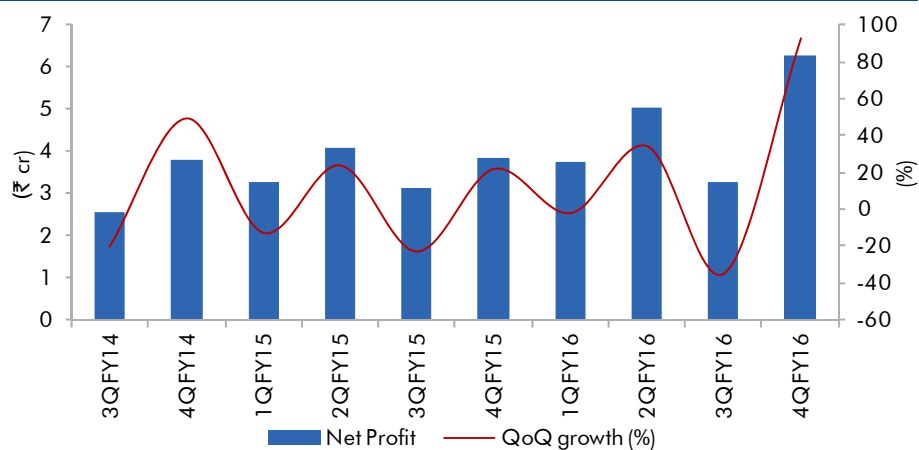


Source: Company, Angel Research

### PAT grew ~65% yoy

The reported net profit grew by ~65% yoy to ₹6.3cr, 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 ~₹416cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~9% CAGR to ₹22cr 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 a Buy rating on the stock with a target price of ₹235.**

## 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	FY16E	FY17E	FY18E
<b>Total operating income</b>	<b>305</b>	<b>314</b>	<b>318</b>	<b>344</b>	<b>382</b>	<b>416</b>
% chg	11.0	2.9	1.3	8.1	10.9	9.0
<b>Total Expenditure</b>	<b>292</b>	<b>292</b>	<b>293</b>	<b>313</b>	<b>347</b>	<b>378</b>
Cost of Materials	216	216	210	219	245	267
Personnel Expenses	16	17	17	19	21	24
Others Expenses	60	60	65	75	80	87
<b>EBITDA</b>	<b>14</b>	<b>22</b>	<b>25</b>	<b>31</b>	<b>35</b>	<b>38</b>
% chg	34.4	62.1	14.5	24.3	10.6	9.0
(% of Net Sales)	4.5	7.0	7.9	9.1	9.1	9.1
Depreciation & Amortisation	4	5	6	6	6	7
<b>EBIT</b>	<b>9</b>	<b>17</b>	<b>19</b>	<b>25</b>	<b>28</b>	<b>31</b>
% chg	56.8	86.1	14.1	31.1	11.6	9.6
(% of Net Sales)	3.0	5.4	6.1	7.4	7.4	7.5
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>26</b>	<b>29</b>
% chg	220.0	109.2	23.6	35.3	6.2	12.3
Prior Period & Extraord. Exp./(Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>7</b>	<b>15</b>	<b>18</b>	<b>25</b>	<b>26</b>	<b>29</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>19</b>	<b>22</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>19</b>	<b>22</b>
<b>ADJ. PAT</b>	<b>5</b>	<b>12</b>	<b>14</b>	<b>18</b>	<b>19</b>	<b>22</b>
% chg	218.8	112.4	24.4	27.9	5.7	12.3
(% of Net Sales)	1.8	3.7	4.5	5.3	5.1	5.2
<b>Basic EPS (₹)</b>	<b>3.7</b>	<b>7.8</b>	<b>9.7</b>	<b>12.4</b>	<b>13.1</b>	<b>14.7</b>
<b>Fully Diluted EPS (₹)</b>	<b>3.7</b>	<b>7.8</b>	<b>9.7</b>	<b>12.4</b>	<b>13.1</b>	<b>14.7</b>
% chg	218.8	112.4	24.4	27.9	5.7	12.3

**Balance Sheet**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	15	15	15	15	15	15
Reserves & Surplus	56	64	73	87	101	118
<b>Shareholders Funds</b>	<b>71</b>	<b>79</b>	<b>88</b>	<b>102</b>	<b>116</b>	<b>133</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>143</b>	<b>155</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	156	177
Inventories	66	70	64	74	80	88
Sundry Debtors	44	41	40	45	49	54
Cash	0	0	2	0	1	2
Loans & Advances	5	6	5	8	12	17
Other Assets	3	5	7	8	13	17
Current liabilities	44	42	40	45	56	63
<b>Net Current Assets</b>	<b>75</b>	<b>81</b>	<b>77</b>	<b>91</b>	<b>100</b>	<b>113</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>143</b>	<b>155</b>



**Cashflow Statement**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	7	15	18	25	26	29
Depreciation	4	5	6	6	6	7
Change in Working Capital	(12)	(8)	5	(15)	(9)	(12)
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>19</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>(13)</b>	<b>(13)</b>
Inc./(Dec.) in Cash	0	(0)	1	(1)	1	1
<b>Opening Cash balances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>1</b>
<b>Closing Cash balances</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>2</b>

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	55.4	26.1	21.0	16.4	15.5	13.8
P/CEPS	30.4	18.1	14.9	12.4	11.7	10.5
P/BV	4.3	3.8	3.4	3.0	2.6	2.3
Dividend yield (%)	0.7	1.0	1.2	1.6	1.7	1.9
EV/Sales	1.1	1.1	1.0	1.0	0.8	0.8
EV/EBITDA	24.4	15.1	12.5	10.5	9.3	8.4
EV / Total Assets	2.2	2.1	2.1	1.8	1.6	1.5
<b>Per Share Data (₹)</b>						
EPS (Basic & fully diluted)	3.7	7.8	9.7	12.4	13.1	14.7
EPS (Adjusted)	3.7	7.8	9.7	12.4	13.1	14.7
Cash EPS	6.7	11.2	13.6	16.4	17.4	19.3
DPS	1.5	2.0	2.5	3.2	3.4	3.8
Book Value	47.7	53.2	59.6	68.8	78.4	90.0
<b>Returns (%)</b>						
ROCE	9.0	15.2	18.3	19.2	20.1	20.3
Angel ROIC (Pre-tax)	9.0	15.2	18.6	19.2	20.3	20.6
ROE	7.7	14.6	16.2	18.0	16.7	16.3
<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)

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### 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%)