

Linc Pen & Plastics

Performance Highlights

Quarterly Data

(₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq
Revenue	72	69	4.6	88	(17.7)
EBITDA	6.4	6	10.3	8	(19.4)
Margin (%)	8.9	8.4	46bp	9.1	(19bp)
Adj. PAT	3	3	4.2	5	(34.7)

Source: Company, Angel Research

Linc Pen & Plastics Ltd (LPPL)'s 3QFY2016 results have come in below our estimates. 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 soft ~4% yoy growth on account of lower sales growth.

Top-line grew ~5% yoy: The company's top-line grew by ~5% yoy to ~₹72cr (which is below our estimate of ~₹75cr), mainly due to a poor sales performance on the export front (8.3% yoy de-growth due to geographical instability and currency volatility). However, domestic sales grew by ~11.5% yoy.

PAT grew ~4% yoy: Despite margin expansion, the reported net profit grew by a soft ~4% yoy to ~₹3.3cr (which is below our estimates of ~₹3.6cr) on account of lower sales growth and higher tax rate.

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. **We have a NEUTRAL rating on the stock since all the positives are factored in the stock price.**

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)	25.8	20.8	18.6	15.2
P/BV (x)	3.8	3.4	3.0	2.6
RoE (%)	14.6	16.2	16.0	17.1
RoCE (%)	15.2	18.3	19.0	20.3
EV/Sales (x)	1.1	1.0	0.9	0.8
EV/EBITDA (x)	15.0	12.4	10.9	9.3

Source: Company, Angel Research, Note: CMP as of February 05, 2016

NEUTRAL

CMP	₹201
Target Price	-

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 Fls	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

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Exhibit 1: Quarterly performance

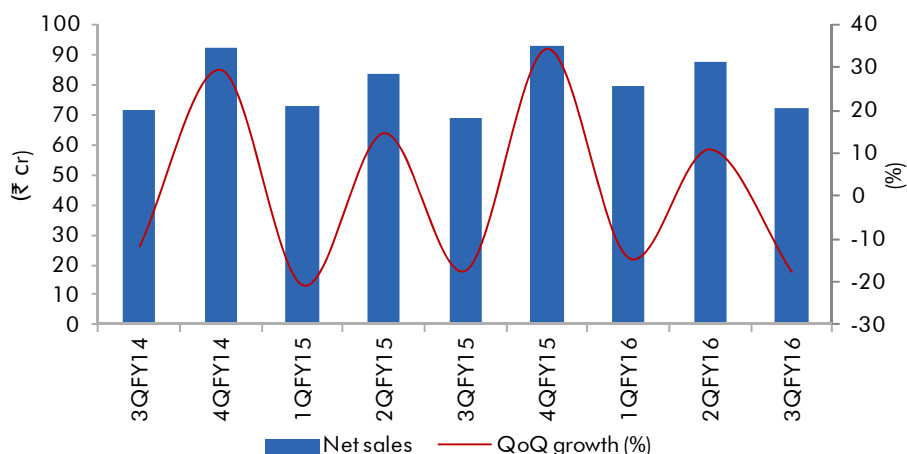
Y/E March (₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq	9MFY16	9MFY15	% chg
Net Sales	72	69	4.6	88	(17.7)	239	226	5.9
Consumption of RM	45	45	1.0	56	(20.0)	152	150	1.4
(% of Sales)	62.3	64.5		64.1		63.7	66.5	
Staff Costs	4	4	1.6	5	(6.2)	13	12	10.2
(% of Sales)	6.0	6.2		5.3		5.6	5.4	
Operating Expense	16	14	14.2	19	(12.8)	53	45	16.9
(% of Sales)	22.8	20.9		21.5		22.0	19.9	
Total Expenditure	66	63	4.1	80	(17.5)	218	207	5.3
Operating Profit	6	6	10.3	8	(19.4)	21	18	13.0
OPM (%)	8.9	8.4		9.1		8.7	8.2	
Interest	0	0	60.2	0	211.0	1	1	(19.6)
Depreciation	1	2	(3.8)	1	6.2	4	4	0.2
Other Income	0	0	(84.8)	0	(79.6)	0	0	(40.0)
PBT	4	4	10.7	6	(30.6)	16	13	19.3
(% of Sales)	6.2	5.9		7.4		6.6	5.8	
Provision for Taxation	1	1	33.0	1	(16.4)	4	3	38.4
(% of PBT)	27.0	22.5		22.4		23.2	20.0	
Minority Interest								
Reported PAT	3	3	4.2	5	(34.7)	12	11	14.6
PATM	4.5	4.5		5.7		5.0	4.7	

Source: Company, Angel Research

Top-line grows 5% yoy

The company's top-line grew by ~5% yoy to ~₹72cr (which is below our estimate of ~₹75cr), mainly due to a poor sales performance on the export front (8.3% yoy de-growth due to geographical instability and currency volatility). However, domestic sales grew by ~11.5% yoy.

Exhibit 2: Top-line growth trend

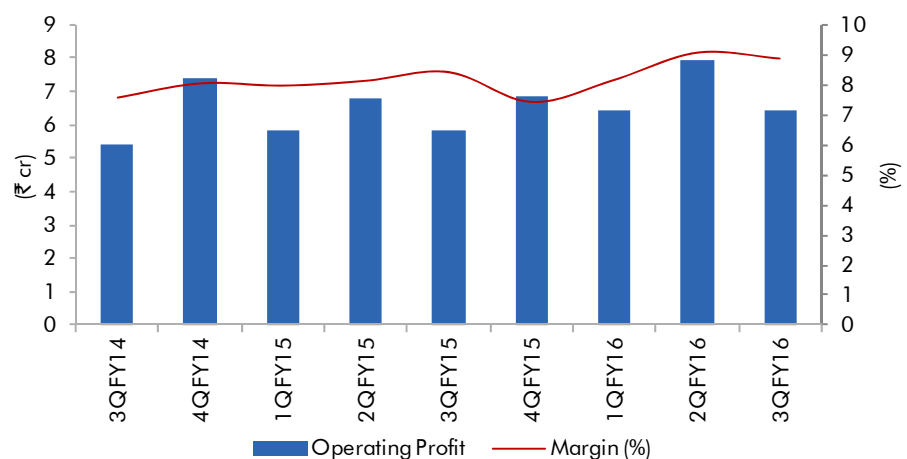


Source: Company, Angel Research

Operating margin expansion due to falling material prices

On the operating front, the company reported margin improvement by 46bp yoy to 8.9%, primarily on account of lower raw material costs.

Exhibit 3: Operating profit and margin trend

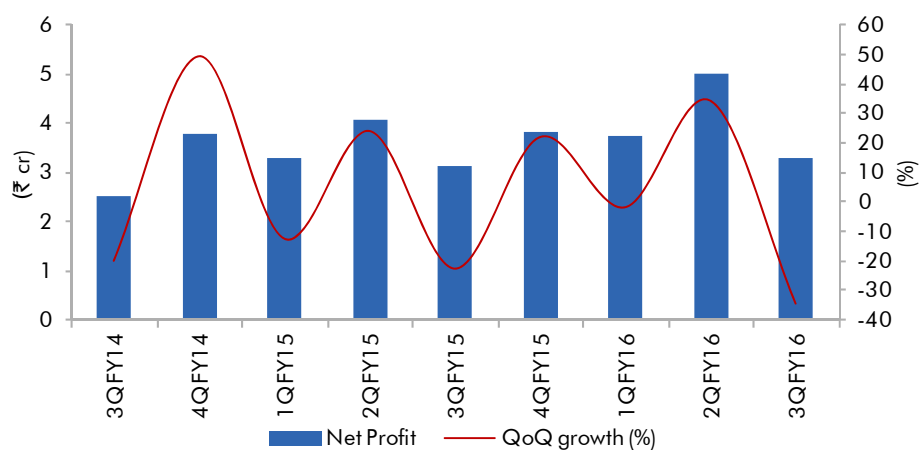


Source: Company, Angel Research

PAT grew ~4% yoy

Despite margin expansion, the reported net profit grew by a soft ~4% yoy to ~₹3.3cr (which is below our estimates of ~₹3.6cr) on account of lower sales growth and higher tax rate.

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/socio-economic 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. **We have a NEUTRAL rating on the stock since all the positives are factored in the stock price.**

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)	174.9	54.8	25.8	20.8	18.6	15.2
P/CEPS	49.5	30.1	18.0	14.7	13.3	11.3
P/BV	6.2	4.2	3.8	3.4	3.0	2.6
Dividend yield (%)	0.5	0.7	1.0	1.2	1.4	1.7
EV/Sales	1.2	1.1	1.1	1.0	0.9	0.8
EV/EBITDA	33.5	24.1	15.0	12.4	10.9	9.3
EV / Total Assets	2.6	2.2	2.1	2.1	1.9	1.7
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

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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%)