

## Increasing share of value added products to benefit...

Linc Pen & Plastics (Linc) reported a stable Q4FY19 performance. Net sales for the quarter were at ₹ 106.2 crore, up 2.7% YoY. EBITDA was at ₹ 7.5 crore with corresponding EBITDA margins at 7.0%, down 120 bps YoY. Ensuing PAT was at ₹ 0.6 crore vs. ₹ 3.1 crore in the base quarter (Q4FY19). Lower PAT was impacted by higher effective tax rate due to tax outgo for arrear years. On a full year basis, in FY19, Linc clocked sales of ₹ 367 crore, up 11% YoY; EBITDA of ₹ 25.7 crore (EBITDA margins 7%, down 80 bps YoY) and PAT of ₹ 5.4 crore. During the year, Linc launched an innovative, new-generation product i.e. "Pentonic" that is gaining good demand traction domestically and is well poised to attain sales of ~₹ 100 crore in FY20E.

## Digitisation takes toll, limited volume growth on offer

Linc is a writing instrument player manufacturing pens and associated consumables domestically. It derives ~75% of its sales from the domestic market and the rest ~25% of sales from exports. With increasing penetration of digitisation, the core writing instrument market is not growing globally with growth limited to ~10% in the domestic market, the size of which is pegged at ~₹ 4,100 crore (FY17). Domestic growth is supported by rising literacy rates and higher share of school going population. Going forward, we expect the trend to continue with the domestic industry growing at ~10% CAGR in the next five years. This bodes well for Linc, which has a strong brand presence in the east as well as rising penetration elsewhere.

## Premiumisation trend to prevail, Linc well placed

With limited volume growth prospects and pressure on margins on account of cut throat competition in the base segment (₹ 5/unit), Linc has been gradually moving up the value chain with focus on >=₹ 10/unit product profile. The focus is bearing fruit for Linc, with contribution of value added products, in the general trade channel for FY19, increasing to 32% in terms of volume (18% in FY18) and to 46% in terms of value (32% in FY18). This, coupled with a recent drop in crude prices should aid a margin recovery, which fell to 7% in FY19. We conservatively build in EBITDA margin improvement to 8.0% for FY20E and 8.5% for FY21E against the intent the management to improve it to ~9% in FY20E.

## Valuation & Outlook

Going forward, we build in sales, EBITDA CAGR of 7.5% & 10.1%, respectively, in FY19-21E. PAT growth, however, looks optically much higher at 52% CAGR due to abnormal high tax rate in the base year (FY19). We value Linc at ₹ 220 i.e. 0.8x MCap/Sales on FY21E numbers and assign a **HOLD** rating to the stock. A positive risk to our call would be the listing of its competitor on Indian bourses, which has already filed its DHRP with Sebi.



### Particulars

Stock Data	₹ crore
Market Capitalization	295.7
Total Debt (FY19P)	57.8
Cash and Cash Equivalent (FY19P)	0.2
Enterprise Value	353
52 week H/L	385 / 186
Equity Capital	14.8
Face Value	₹ 10

### Key Highlights

- In FY19, Linc clocked sales of ₹ 367 crore, up 11% YoY; EBITDA of ₹ 25.7 crore (EBITDA margins 7%) and PAT of ₹ 5.4 crore
- During FY19, Linc launched an innovative product i.e. "Pentonic", which is gaining good demand traction domestically and is well poised to attain sales of ~₹ 100 crore in FY20E
- With limited volume growth, premiumisation trend to prevail.
- Maintain HOLD, valuing Linc at 0.8x MCap/Sales on FY21E numbers

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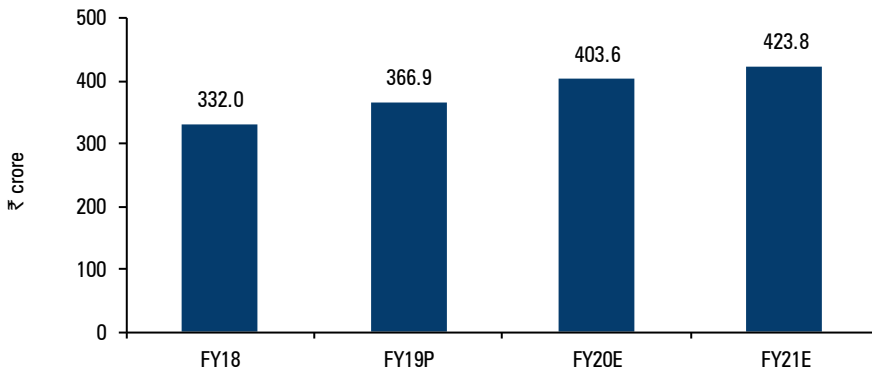
### Key Financial Summary

(₹ crore)	FY17	FY18	FY19P	FY20	FY21	CAGR (FY19-21E)
Sales	349.7	332.0	366.9	403.6	423.8	7.5%
EBITDA	33.5	25.7	25.7	32.3	36.0	
EBITDA Margin (%)	9.6	7.8	7.0	8.0	8.5	10.1%
PAT	17.2	7.8	5.4	10.7	12.6	52.0%
EPS (₹)	11.6	5.3	3.7	7.2	8.5	
P/E (x)	17.2	38.1	54.4	27.7	23.6	
RoCE (%)	11.6	7.0	7.1	8.4	9.8	
RoE (%)	14.5	6.4	4.4	8.1	8.9	

Source: ICICI Direct Research, Company

## Financial story in charts

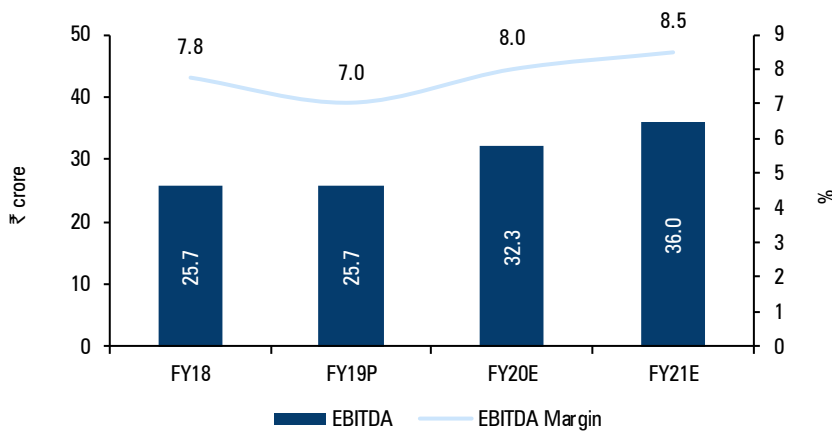
Exhibit 1: Sales trend



With incremental capacities in place, we expect Linc to report sales CAGR of 7.5% over FY19-21E

Source: Company, ICICI Direct Research

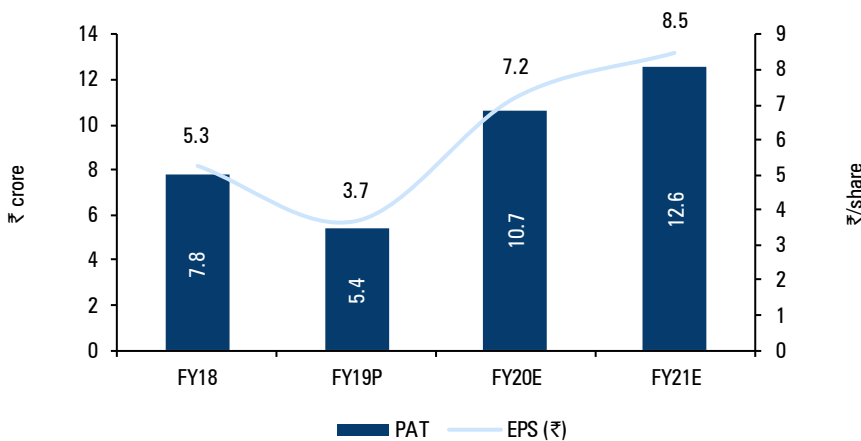
Exhibit 2: EBITDA & EBITDA margin trend



EBITDA CAGR is expected at 10.2% over FY19-21E building in 150 bps improvement in EBITDA margins

Source: Company, ICICI Direct Research

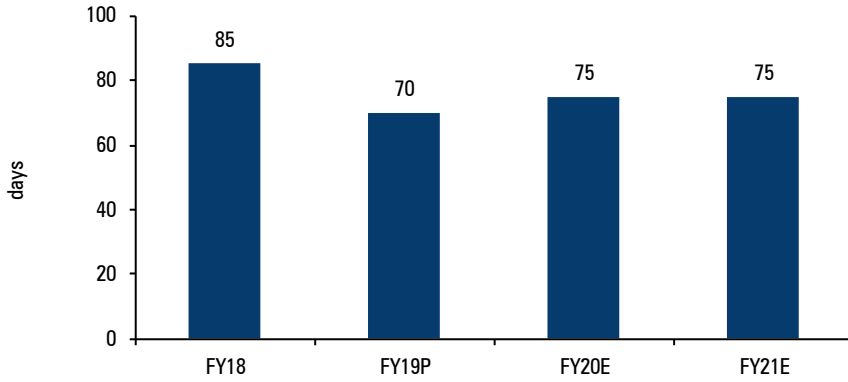
Exhibit 3: PAT & EPS trend



PAT CAGR looks optically high at 52% over FY19-21 due to higher effective tax rate in base year (FY19)

Source: Company, ICICI Direct Research

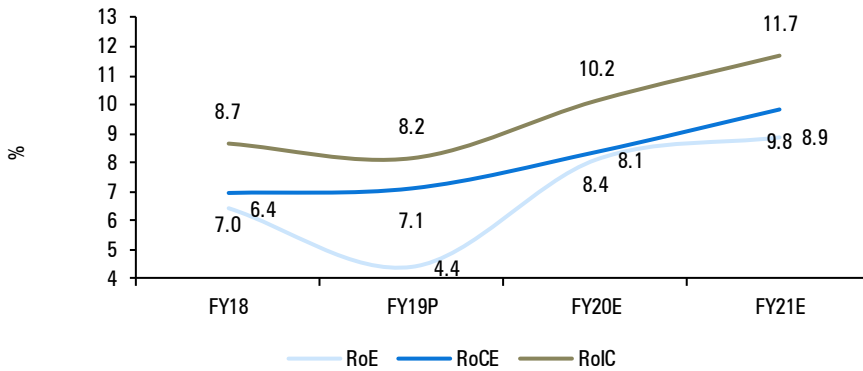
Exhibit 4: Net working capital days



Net working capital cycle has been controlled at Linc, with NWC cycle days coming in at 70 days in FY19 vs. 85 days in FY18. We conservatively build in NWC cycle days at 75 days for FY20-21E

Source: Company, ICICI Direct Research

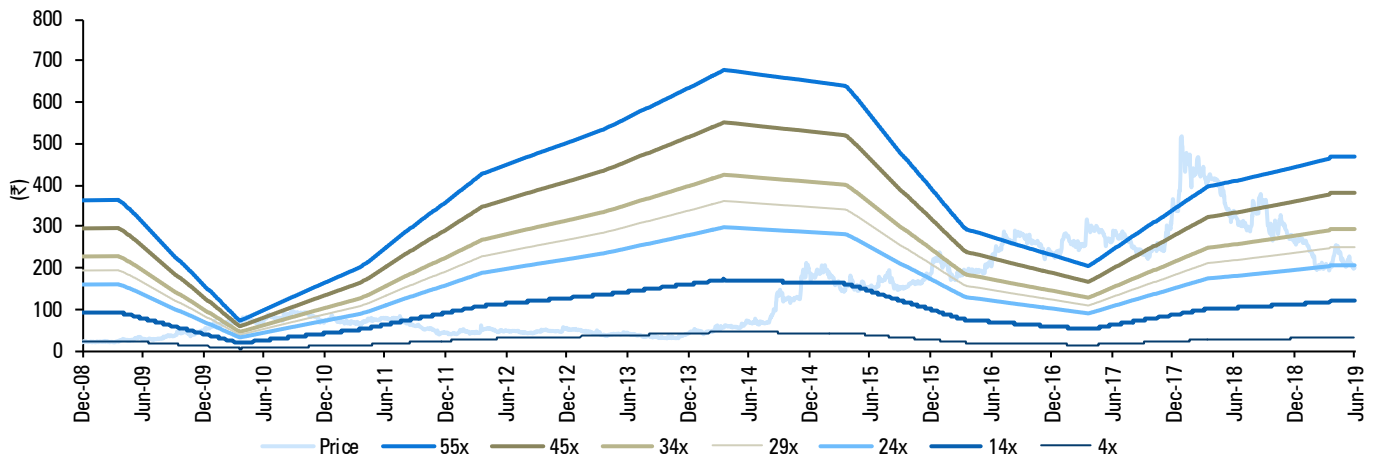
Exhibit 5: Return ratio trend



With improving financials, return ratio profile may inch towards double digit by FY21E

Source: Company, ICICI Direct Research

Exhibit 6: Linc trades at ~24x P/E on FY21E numbers (two year forward long period averages also at ~24x P/E)



Source: Bloomberg, ICICI Direct Research

Exhibit 7: Recommendation history vs. consensus



Source: Reuters, ICICI Direct Research

Exhibit 8: Top 10 shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Jalan (Shobha)	31-Mar-19	13.6	2.0	0.0
2	Mitsubishi Pencil Co Ltd	31-Mar-19	13.5	2.0	0.0
3	Linc Writing Aids Pvt. Ltd.	31-Mar-19	10.7	1.6	0.0
4	Jalan (Sarita)	31-Mar-19	8.3	1.2	0.0
5	Jalan (Surajmal)	31-Mar-19	7.0	1.0	0.0
6	Jalan (Aloke)	31-Mar-19	5.2	0.8	0.0
7	Jalan (Deepak) HUF	31-Mar-19	3.6	0.5	0.0
8	Jalan (Devanshi)	31-Mar-19	2.5	0.4	0.0
9	Jalan (Rohit)	31-Mar-19	2.4	0.4	0.0
10	Jalan (Deepak)	31-Mar-19	2.2	0.3	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent activity

Buys			Sells		
Investor Name	Value (US\$ M)	Shares(M)	Investor Name	Value (US\$ M)	Shares(M)
Sharaff (Amit)	0.01	0.00	Shyam (S)	0.00	0.00
Jalan (Divya)	0.00	0.00			

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	59.3	59.3	59.4	59.4	59.5
FII	0.0	0.0	0.0	0.0	0.0
DII	0.0	0.0	0.0	0.0	0.0
Others	40.7	40.7	40.6	40.5	40.5

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Net Sales	332.0	366.9	403.6	423.8
Other Operating Income	0.0	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>332.0</b>	<b>366.9</b>	<b>403.6</b>	<b>423.8</b>
Growth (%)	-8.0	10.5	10.0	5.0
Raw Material Expenses	221.0	253.6	274.5	287.3
Employee Expenses	25.5	27.8	32.3	33.9
Other Operating Expense	59.8	59.8	64.6	66.5
Total Operating Expenditure	306.2	341.2	371.3	387.8
<b>EBITDA</b>	<b>25.7</b>	<b>25.7</b>	<b>32.3</b>	<b>36.0</b>
Growth (%)	-23.3	0.0	25.5	11.6
Depreciation	9.6	10.5	11.5	12.2
Interest	4.9	6.1	6.2	6.2
Other Income	1.2	2.2	2.0	1.8
<b>PBT</b>	<b>12.4</b>	<b>11.4</b>	<b>16.5</b>	<b>19.4</b>
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	4.6	5.9	5.8	6.8
<b>PAT</b>	<b>7.8</b>	<b>5.4</b>	<b>10.7</b>	<b>12.6</b>
Growth (%)	-54.7	-30.1	96.3	17.8
<b>EPS (₹)</b>	<b>5.3</b>	<b>3.7</b>	<b>7.2</b>	<b>8.5</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Profit after Tax	7.8	5.4	10.7	12.6
Add: Depreciation	9.6	10.5	11.5	12.2
(Inc)/dec in Current Assets	-14.2	10.5	-17.9	-8.7
Inc/(dec) in CL and Provisions	11.6	-3.8	1.1	2.3
Others	4.9	6.1	6.2	6.2
<b>CF from operating activities</b>	<b>19.7</b>	<b>28.7</b>	<b>11.7</b>	<b>24.6</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-20.0	-18.6	-12.0	-5.0
Others	-0.5	2.9	0.0	0.0
<b>CF from investing activities</b>	<b>-20.5</b>	<b>-15.7</b>	<b>-12.0</b>	<b>-5.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	11.2	-4.2	9.2	-10.0
Dividend paid & dividend tax	-2.7	-2.7	-2.7	-3.5
Inc/(dec) in Share Cap	-2.6	-0.2	0.2	0.9
Others	-4.9	-6.1	-6.2	-6.2
<b>CF from financing activities</b>	<b>1.0</b>	<b>-13.2</b>	<b>0.5</b>	<b>-18.9</b>
Net Cash flow	0.1	-0.2	0.2	0.7
Opening Cash	0.2	0.3	0.2	0.3
<b>Closing Cash</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>1.0</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	14.8	14.8	14.8	14.8
Reserve and Surplus	106.0	108.6	116.7	126.6
<b>Total Shareholders funds</b>	<b>120.8</b>	<b>123.4</b>	<b>131.5</b>	<b>141.4</b>
Total Debt	62.0	57.8	67.0	57.0
Deferred Tax Liability	3.4	6.4	6.4	6.4
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>186.2</b>	<b>187.5</b>	<b>204.9</b>	<b>204.8</b>
<b>Assets</b>				
Gross Block	129.5	147.8	160.1	165.1
Less: Acc Depreciation	61.8	72.2	83.8	96.0
<b>Net Block</b>	<b>67.7</b>	<b>75.6</b>	<b>76.4</b>	<b>69.2</b>
Capital WIP	0.2	0.5	0.2	0.2
Total Fixed Assets	67.9	76.1	76.6	69.4
Liquid Investments	0.0	0.0	0.0	0.0
Other Investments	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	78.9	70.2	77.4	81.3
Debtors	45.9	43.3	49.8	52.3
Loans and Advances	41.4	42.1	46.3	48.6
Other Current Assets	0.0	0.0	0.0	0.0
<b>Cash</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>1.0</b>
Total Current Assets	166.4	155.8	173.8	183.2
Creditors	47.3	43.2	44.2	46.4
Provisions	1.0	1.4	1.4	1.5
Current Liabilities & Prov	48.3	44.5	45.6	47.9
<b>Net Current Assets</b>	<b>118.1</b>	<b>111.3</b>	<b>128.2</b>	<b>135.3</b>
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>186.2</b>	<b>187.5</b>	<b>204.9</b>	<b>204.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY18	FY19P	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	5.3	3.7	7.2	8.5
Cash EPS	11.8	10.7	15.0	16.7
BV	81.7	83.4	89.0	95.6
DPS	1.5	1.5	1.5	2.0
Cash Per Share (Incl Invst)	0.2	0.1	0.2	0.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	7.8	7.0	8.0	8.5
PBT / Total Op. income	3.7	3.1	4.1	4.6
PAT Margin	2.3	1.5	2.6	3.0
Inventory days	86.8	69.8	70.0	70.0
Debtor days	50.4	43.1	45.0	45.0
Creditor days	52.0	42.9	40.0	40.0
Net Working Capital days	85.2	70.0	75.0	75.0
<b>Return Ratios (%)</b>				
RoE	6.4	4.4	8.1	8.9
RoCE	7.0	7.1	8.4	9.8
RoIC	8.7	8.2	10.2	11.7
<b>Valuation Ratios (x)</b>				
P/E	38.1	54.4	27.7	23.6
EV / EBITDA	13.9	13.7	11.2	9.8
EV / Net Sales	1.1	1.0	0.9	0.8
Market Cap / Sales	0.9	0.8	0.7	0.7
Price to Book Value	2.4	2.4	2.2	2.1
<b>Solvency Ratios</b>				
Debt/EBITDA	2.4	2.2	2.1	1.6
Debt / Equity	0.5	0.5	0.5	0.4
Current Ratio	3.4	3.5	3.8	3.8
<b>Quick Ratio</b>	<b>1.8</b>	<b>1.9</b>	<b>2.1</b>	<b>2.1</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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