Stock Note

Linc Ltd.

April 17, 2023

RETAILRESEARCH

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Linc Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Stationery	Rs. 595	Buy in Rs. 591-601 band and add more on dips in Rs. 525-533 band	Rs. 661	Rs. 715	2 -3 quarters

HDFC Scrip Code	LINPENEQNR
BSE Code	531241
NSE Code	LINCPEN
Bloomberg	LINC IN
CMP (April 13, 2023)	595
Equity Capital (RsCr)	15
Face Value (Rs)	10
Equity Share O/S (Cr)	1.5
Market Cap (RsCr)	885
Book Value (Rs)	114
Avg. 52 Wk Volumes	28532
52 Week High	617
52 Week Low	230

Share holding Pattern % (March, 2023)	
Promoters	59.25
Institutions	0.28
Non Institutions	40.47
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Linc Ltd. (Linc) is a prominent writing instrument player domestically with a good brand recall and is a trusted name in the market place. Over the years, Linc has introduced many revolutionary products right from being the first Indian company to introduce a ball pen in 1980s at Rs. 2, it launched gel pen "Hi-School" for Rs. 10/unit (prevailing price for gel pens was Rs. 15- 20/unit). In 2002, Linc launched Smart, an oil based gel pen for Rs 5. Linc Ocean Gel pen launched in 2003 is the highest selling gel pen. Other key launches include Linc Signetta and Link Twinn. However, it's most important launch so far is the Pentonic which was introduced in FY19. Its success in FY23 has taken the industry by surprise and reshaped the company's growth trajectory.

The company is also the sole distributor of Uni-Ball brand of pens by Mitsubishi Pencil Company (Japan), which also holds ~13.5% stake in Linc. Further, in 2018, Linc entered into partnership with Deli (Asia's largest stationery manufacturer) for exclusive distribution of its products in India which has enabled it to diversify beyond writing instruments.

Linc is graduating from writing instruments to stationery products - a single-point solution. With increasing thrust on augmenting literacy levels domestically, the demand for education products is expected to remain good. Linc with its increasing 'Reach' and 'Range' coupled with improved brand salience is well poised to grow.

Valuation & Recommendation:

Linc's revenue over FY13-19 grew at mere 3.7% CAGR due to higher competitive intensity, discontinuation of less profitable products, unfavourable macroeconomic factors (demonetisation, rollout of GST), etc. In FY19, it launched a path breaking product, Pentonic which was a runaway success. Given that schools were shut for the longest period of time due to pandemic, the recovery was delayed. However, the company has recorded a strong performance over past two quarters and we expect the momentum to continue.

In past couple of years, Linc has decisively undergone a paradigm shift in its business model. The company has unleashed Linc 2.0: a five-pronged strategy to drive next leg of growth. The fundamental goal is to expand the "Range" and widen the "Reach" of its products. As a part of its renewed strategy, the company is looking to 1) increase touch points, 2) emphasis on higher margin products, 3) widening the stationery portfolio, 4) enhancing existing capacity, and 5) improve on ESG aspect.

On the back of its renewed commitment to growth, we expect the company to report Revenue and PAT growth of ~24% and 90% (partly due to low base) over FY22-25E. Lower working capital requirements and improving profitability has improved company's cash generation while also bolstering its return profile. Linc aims to maintain a healthy, deleveraged balance sheet in the future by financing its operations largely through cash accruals.

The management of the company has envisioned to transform Linc into a FMCG company by increasing its reach, enhancing its brand visibility and embarking on innovations to de-commoditize its business. Consistency in performance would make Linc a strong candidate for re-rating, in our view. **We think the base case fair value of the stock is Rs 661 (17.5x FY25E EPS) and the bull case fair value is Rs 715 (19x FY25E EPS). Investors can buy the in stock Rs 591-601 band (16x FY25E EPS) and add more on dips in Rs 525-533 band (14x FY25E EPS).**

Financial Summary

Particulars (in Rs Cr)	9MFY23	9MFY22	YoY-%	9MFY20	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	349	244	43%	299	257	355	479	576	682
EBITDA	42	16	166%	30	10	22	58	73	89
APAT	25	5	388%	14	0	8	35	46	56
Diluted EPS (Rs)	16.9	3.5	387%	9.6	0.03	5.5	23.2	30.8	37.7
RoE-%					0.0	5.9	22.1	24.4	24.5
P/E (x)					17,683.4	108.6	25.6	19.3	15.8
EV/EBITDA					87.7	41.2	14.9	11.9	9.5

(Source: Company, HDFC sec)

Key Triggers

Illustrious past, colorful future

Linc was founded by Suraj Mal Jalan, who moved from Rajasthan to Kolkata in the 1960s to pursue a college degree. He faced the difficulty of non-affordability while buying good quality pens during his academic life. Using fountain pens in those days was a messy affair as the ink would spill and required regular maintenance while the ballpoint pens, which cost Rs 10, which was expensive for students at that time.

Mr. Suraj Jalan partnered with two friends, who were working in the pen industry at that time, imported the metal tip from Switzerland and the ink from Germany, and began manufacturing ball pens. He invested a few thousand rupees of his savings and launched the first Linc ball pen for Rs 2 from a small manufacturing facility in Kolkata. The business gradually expanded and established a stronghold in West Bengal and North East India.

Mr. Deepak Jalan (son of Mr. Suraj Jalan and current MD) joined the business in early 1980s. In 1986, he set up a full-fledged manufacturing unit. Linc launched its IPO in 1995.

There was still reluctance to use ball pens which used oil-based ink in the favour of water-based fountain ink pens. This paved way for the launch of gel pens, which also used water-based ink. Gel pens back then were priced at Rs. 20 and above with 'ADD Gel' being the market leader. In 2002, Linc launched its gel pen range, High School Pens, at Rs 10 price point. Later, to deepen its market presence, the company launched Linc Ocean Gel Pen at Rs 5, which was the first gel pen to be sold at such a low price.

Key product introductions from Linc over the years

(Source: Company, HDFC sec)

While Linc had introduced quite a few products including Linc Twinn (the world's first pen+pencil incorporated in one body) and Linc Touch (a pen+stylus), it still had >60% contribution from >Rs. 10 price point which is intensely competitive. The growth had stagnated and a pen looked a mere commodity until the launch of Pentonic in FY19...

<u>Pentonic – The Game-changer and 'tonic' for growth</u>

Out of the ~Rs 4,500-crore writing instruments market, the organised market is worth Rs 3,000 crore, dominated by brands such as Cello, Reynolds, Flair and Linc Pen. All of them operate in the mass segment, with bulk of their products priced between Rs 5 to Rs. 20. Most of the organised brands have not been able to increase prices for almost a decade as unorganised players sell their pens at prices as low as Rs 2-3, and there is hardly any brand differentiation.

Linc's revenue had stagnated at ~Rs 350 Cr between 2015-2019. Then the company launched its Pentonic range of pens. The key USP of Pentonic is its unique design along with writing smoothness at affordable price of Rs. 10.

Pentonic has been a runaway success as in little over three years Pentonic now contributes over 30% of company's revenue as against only 7% in FY19. Due to higher Gross Margin of over 40% for Pentonic, the company's average Gross Margin which was below 35% in FY18 has steadily increased to more than 40% in Q3FY23.

Currently, the Pentonic portfolio consists of three key products; Rs. 10 ball pen (first product launched under the Pentonic brand in FY19), Rs. 10 gel pen and Rs. 20 ball pen B-RT. It is on the verge of launching Rs. 40 pen, the test launch for which has already undertaken in Kolkata. Likewise, the company plans to launch a series of products across price points (Rs. 10 plus) at regular intervals as it seeks to move up the premiumisation ladder. We believe that the success of Pentonic could translate into the success of a family of products including non-writing instruments to be launched across the foreseeable future.

<u>Linc 2.0: Rewriting the Growth Story</u>

Linc has decisively undergone a paradigm shift in its business model. The company has unleashed Linc 2.0: a five-pronged strategy to drive next leg of growth.

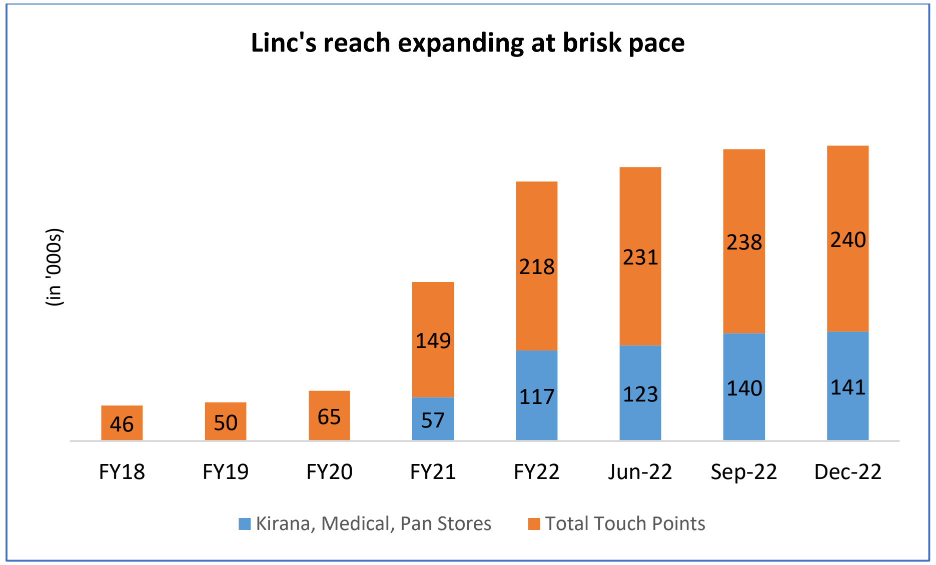
1) Increase touch points
2) Emphasis on higher margin products
3) Widening the stationery portfolio
4) Enhancing existing capacity
5) Improve on ESG aspect

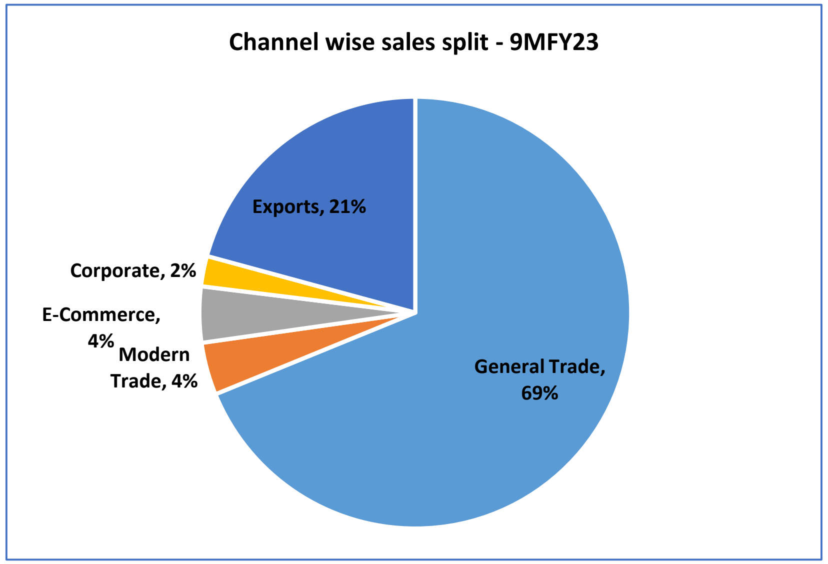
The fundamental goal is to expand the "Range" and widen the "Reach" of its products.

1) **Increase touch points:** Earlier, Linc products were marketed through stationery stores but the extended closure of educational institutions and stationery stores during the pandemic affected offtake. The company in consultation with Vector Consulting Group embarked upon a

massive project of penetrating the Kirana network of India to increase their points of presence for company's products. India has over 10 million non-stationery outlets like Kirana, medical stores, pan plaza. The company has already reached over 1 lakh such outlets from mere 5000 outlets in FY20. While the throughput per such outlet is relatively small, the sheer volume of these outlets can significantly drive up the growth.

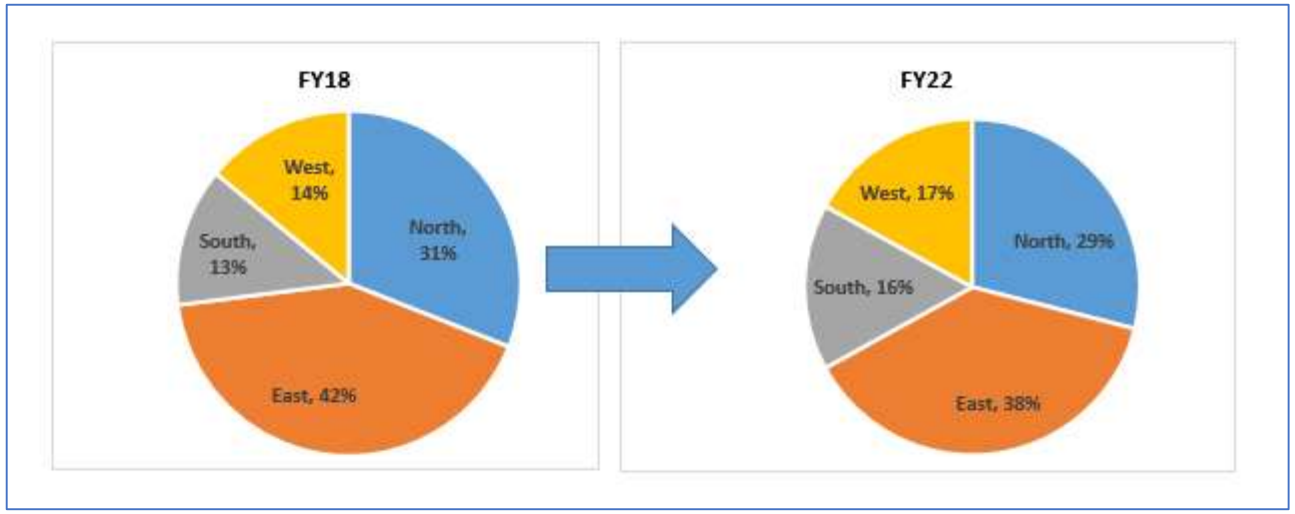
The company's overall reach stands at 2.4L outlets as of December 2022. It plans to double its reach by FY25.





(Source: Company, HDFC sec)

Region wise sales split - focused on geographical diversification



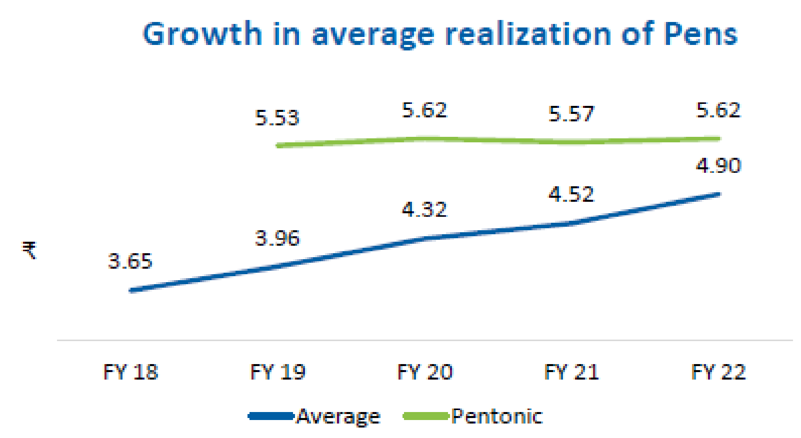
(Source: Company, HDFC sec)

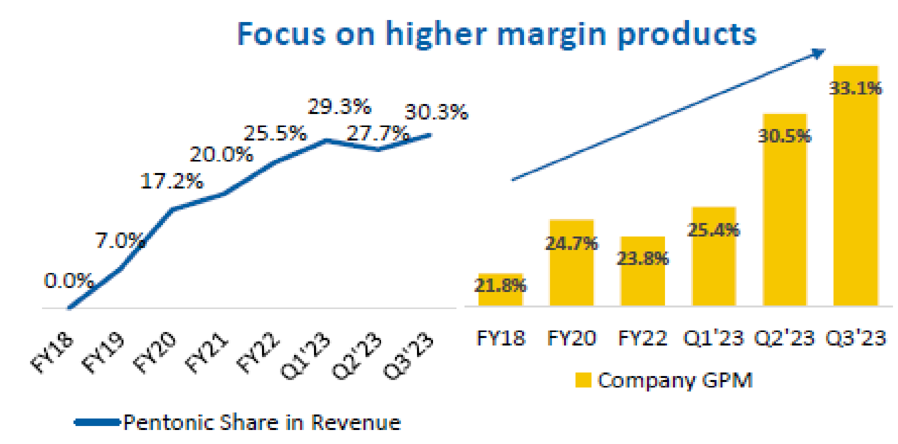
Going digital ("Linc Kahi Bhi Milega"): The company graduated its conventional retailer engagement from the manual to the digital. In the past, Linc's sales representative would visit each retailer and collect indents of additional material they required. This would be a painstaking exercise, limited to about 200 visits by a Linc representative per month. The app-driven approach has been complemented by Linc's tele-callers who engage periodically with retailers on their fresh orders and indents, doing the work that would earlier be addressed by sales representatives. This has helped company increase its throughput while also rationalizing its inventory levels.

Further, the company has reduced its geographical concentration. In FY18, the North and East India accounted for ~73% of Linc's revenues which has now come down to ~67%. The company further plans to bring this down to 50%.

2) **Emphasis on higher margin products:** Pentonic range of pens yield >40% gross margins compared to <25% for lower priced products. Increasing contribution from Pentonic has improved the company's realisations and profit margins. Going forward, the new launches would be at higher price points. We believe this offers a great learning opportunity for the company without any significant cost. Depending upon the response to its products, the company shall engage in manufacturing such products in-house in the future.

Increasing share of Pentonic and focus on high margin products is driving up avg. realizations and profit margins





(Source: Company, HDFC sec)

3) **Widening the stationery portfolio:** The company started its foray into full range of stationery products through its exclusive tie-up with Deli (Asia's largest stationery manufacturer). Stationery products are highly complementary to company's existing portfolio as Linc can leverage its robust distribution network to drive the sales. Deli has 1000+ SKUs and Linc is currently distributing calculators, scissors, desk organisers and files/folders. It is expected that Deli business should add about Rs. 100 crores to the company's turnover in 3 to 4 years' time from the current Rs.19 Cr (9MFY23).

   Additionally, the company has long standing partnership (since 1992) with Mitsubishi Pencil Co. Ltd, Japan. Through its 'Uni-Ball' brand, Linc has presence across all categories of premium writing instruments such as roller pen, gel pen and ball pen.

   These relationships represent an asset-light commitment to outsource stationery products from these international brands while the company continues to deepen the manufacturing competitiveness of its writing instruments.

Segment wise sales split (in Rs Cr)					
Wriring Instruments					
Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Pentonic	22.41	32.02	28.85	34.88	37.42
% of sales	*26%*	*31%*	*31%*	*48%*	*30%*
Linc & Others	47.72	53.47	43.45	62.21	60.21
% of sales	*55%*	*52%*	*47%*	*52%*	*48%*
Uni-Ball	11.91	13.67	14.65	15.37	11.91
% of sales	*14%*	*13%*	*16%*	*13%*	*14%*
Total	**82.04**	**99.16**	**86.95**	**112.46**	**109.54**
% of sales	***86%***	***90%***	***89%***	***89%***	***88%***
Non-writing Instruments					
Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Pentonic	0.08	0.01	0.16	0.24	0.26
% of sales	*0%*	*0%*	*0%*	*0%*	*0%*
Linc & Others	1.13	0.79	1.28	1.19	4.11
% of sales	*1%*	*1%*	*1%*	*1%*	*3%*
Deli	3.2	3.36	4.98	6.49	7
% of sales	*4%*	*3%*	*5%*	*5%*	*6%*
Total	**4.41**	**4.16**	**6.42**	**7.92**	**11.37**
% of sales	***5%***	***4%***	***7%***	***6%***	***9%***

(Non-writing instruments sold under Linc brand include Glue, staple pins etc. and under Pentonic brand include gumsticks, geometric box etc.)
(Source: Company, HDFC sec)

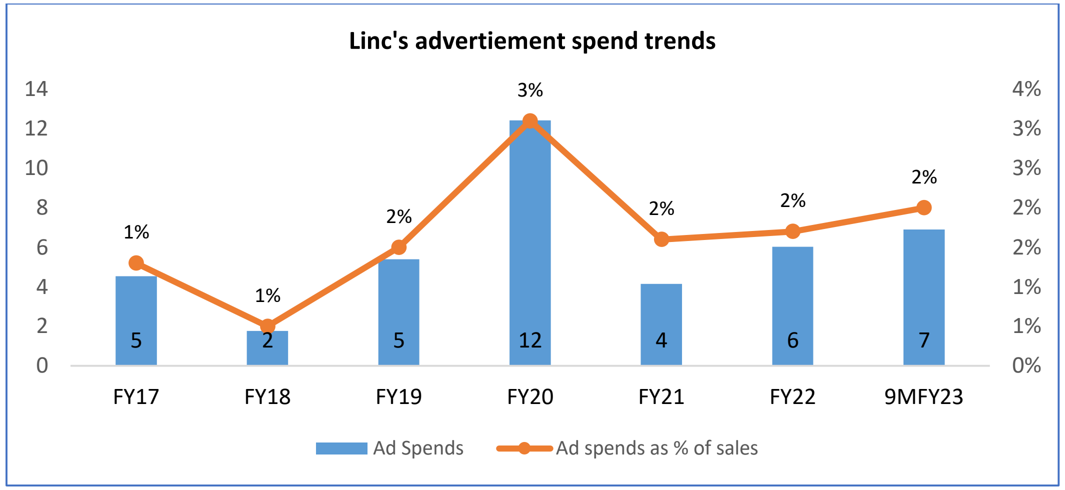
4) **Enhancing existing capacity:** Linc plans to double its capacity to 20 lakh pens per day. The total cost of the project is expected to be ~Rs. 50 Cr, the first phase of the expansion which will increase the capacity by 5 lakh pens per day will cost Rs 35 Cr and will be operational by Q4FY24. Linc has its manufacturing units in Umbergaon (Gujarat) and Serakole (West Bengal). The planned expansion will be taking place at Umbergaon. On the back of expanded capacity and with customer demand expected to be high, the company is well set to achieve ~20% CAGR topline growth over next 3 years.

Linc outsources ~50% of its products (mostly lower end) and will continue to do so in near future. The margins on the outsourced capacity are 2-3% lower than the company's in-house production but gives the company a required control over costs, and higher return ratios.

5) **Improve on ESG aspect"** Linc has been taking various measures to achieve its sustainability goals. Pentonic's individual plastic wrapper packaging has been consciously substituted with paper box packaging comprising 10/20 pieces. This step has saved over 60 MT of plastic waste in FY22. Under the company's refill more campaign, consumers are encouraged to change the refill more often rather than discarding and buying a new pen. Notably, the profit margins are broadly similar across pens and refills.

Focused brand spends to facilitate growth

In the past the company enlisted Shahrukh Khan as brand ambassador for Linc and enlisted Katrina Kaif to promote Uni-Ball products in India. Over the years, it has also inked sponsorship deals with multiple Indian Premier League (IPL) teams – Kolkata Knight Riders, Deccan Chargers, Kings XI Punjab and Rajasthan Royals to enhance its mass visibility. In the past, the company has spent ~2% of its revenues on marketing efforts. The management has guided that ad spends would be higher at ~3% of revenues going forward.



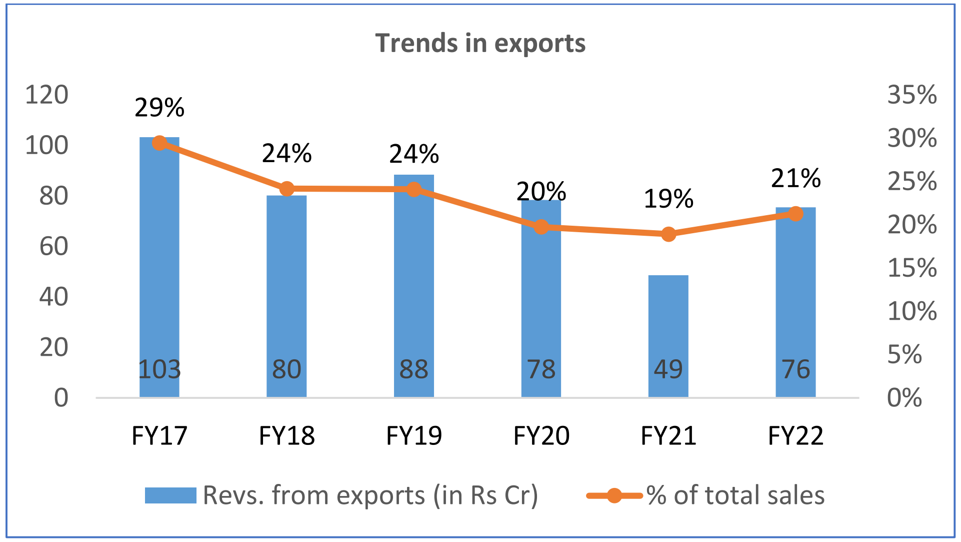
(Source: Company, HDFC sec)

For its tie-ups, Deli bears the entire marketing costs for its products, while Mitsubishi bears 50%.

Exports present a good opportunity

Linc has a presence in over 40 countries and has registered its brand in 50 countries. The company has emerged as the largest selling brand in Myanmar, Yemen, Bangladesh and Sri Lanka. South-east Asia and Africa are key export markets for Linc. Exports have remain subdued over past couple of years due to trade barriers (Covid-19 pandemic, Ukraine war), however, it has started picking up. Given the quality and cost competitiveness of company's products, exports present a good opportunity for the company.

Additionally, increase in exports will be a positive development for Linc as price realization is better in certain markets abroad leading to higher margins in export sales as compared to domestic sales.



(Source: Company, HDFC sec)

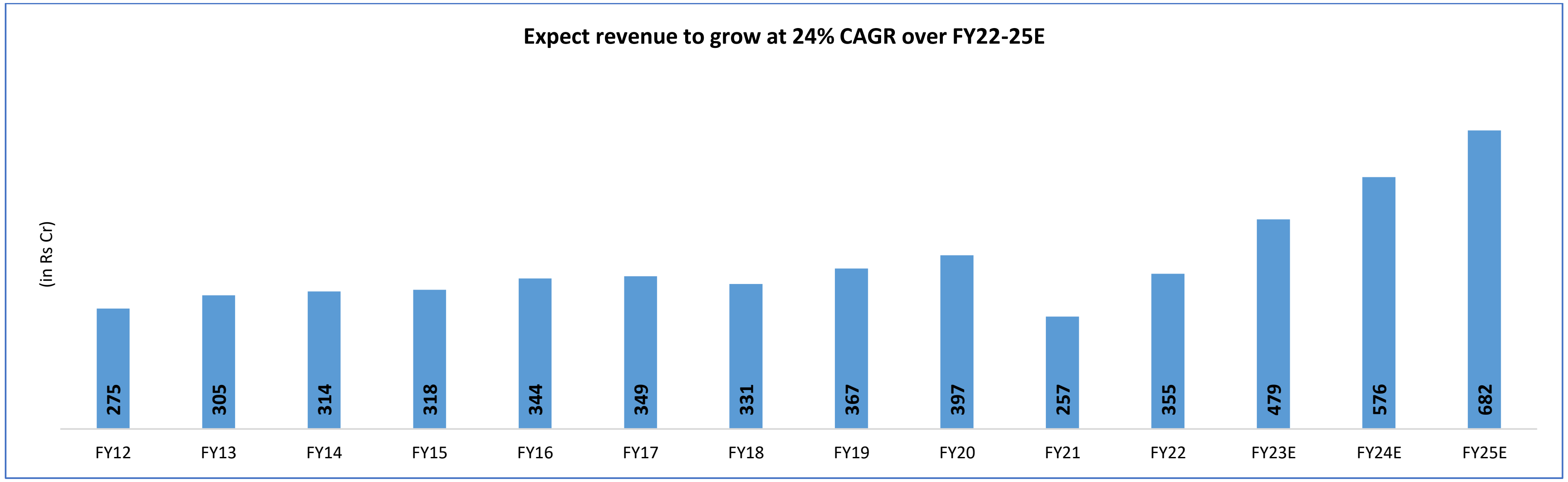
Linc Limited has entered into an agreement on April 05, 2023 in relation to an Investment in Gelx Industries Limited. Gelx is currently engaged in the business of manufacturing and selling of writing instruments and contract manufacture of plastic products for select customers in Kenya. Linc will acquire 60% stake in the company for $100 and line of credit of upto $500,000 as a loan carrying interest rate as per arm's length. The company reported sales of Rs. 7.48 Cr in CY21. This acquisition will provide Linc with an opportunity to deepen its presence in Africa.

Financial Triggers:

Expect a revenue CAGR of 24% over FY22-25E

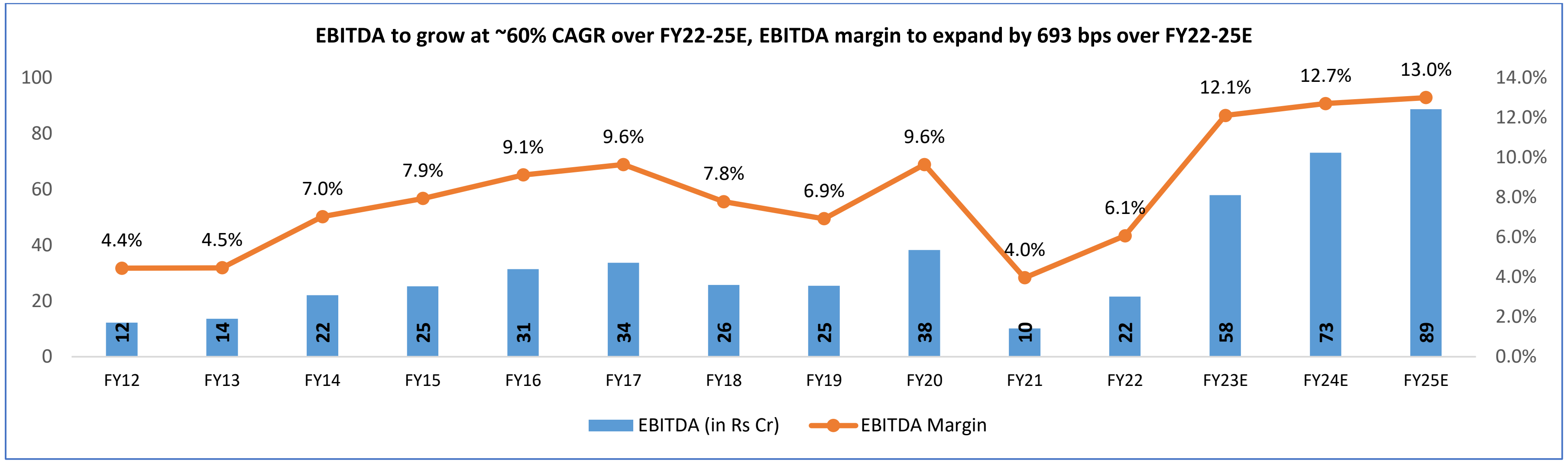
Linc's revenue over FY13-19 grew at mere 3.7% CAGR due to higher competitive intensity, discontinuation of less profitable products, unfavourable macroeconomic factors (demonetisation, rollout of GST, etc.) In FY19, it launched a path breaking product, Pentonic which was a runaway success. However, the recovery was short-lived with breakout of Covid-19 pandemic and subsequent lockdowns. Schools were shut for the longest period of time which further delayed the recovery for Linc. However, with complete lifting up of restrictions, the company has reported strong set of number over past two quarters and we expect the momentum to continue.

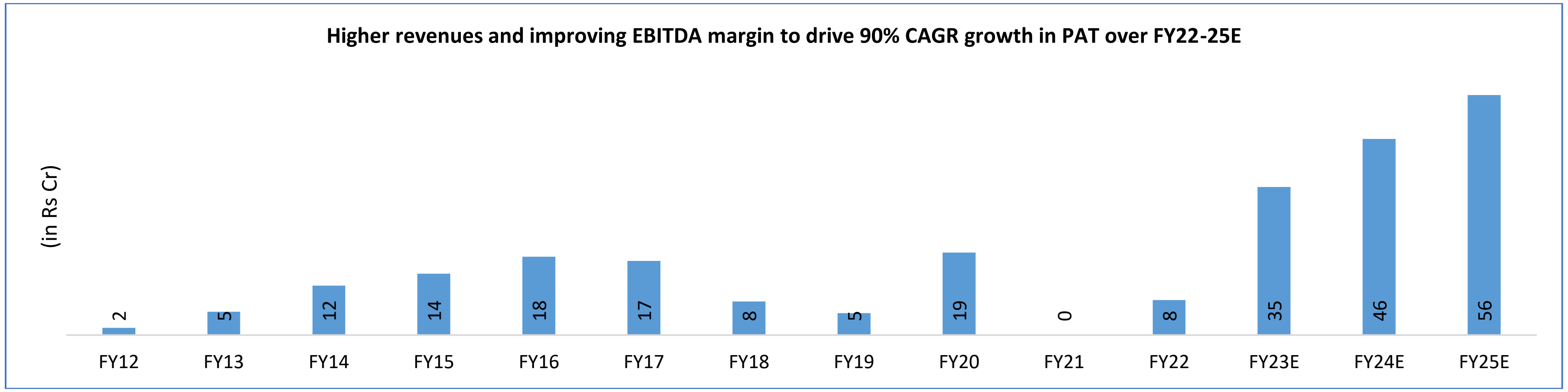
Going ahead, we expect the company to report a CAGR of 24% led by its revolutionary Pentonic brand and aided by widening reach, enhanced capacity and increasing contribution from non-writing instruments portfolio.



(Source: Company, HDFC sec)

Better product mix and cost optimisation to drive PAT growth
Prior to Pentonic, Linc had significantly higher contribution from <Rs. 10 price points which is highly fragmented and intensely competitive market. With a view to de-commoditize its business, the company launched Pentonic. The contribution from Pentonic has reached 32% since its launch in FY19 and this has helped company to improve its gross margins handsomely. Digital transformation in operation has resulted in improved operating efficiencies. We expect a company to report EBITDA margins in 12.5-14% range. Higher revenue growth and improving margin profile to drive PAT CAGR of 90% CAGR over FY22-25E.



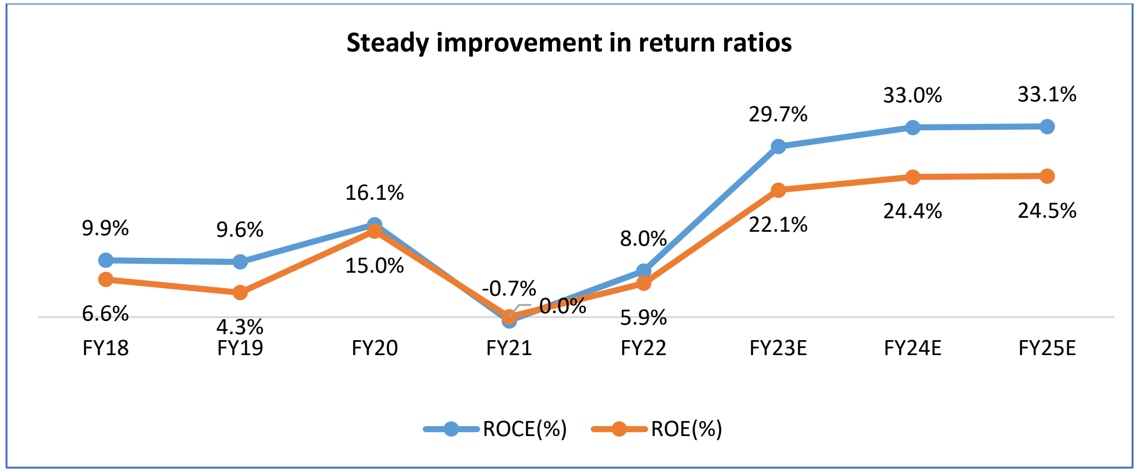


(Source: Company, HDFC sec)

Healthy balance sheet and improving return profile

On account of greenfield expansion (at Umbergoan in 2017), elongated current assets due to stuck up funds at various tax authorities post GST as well as buyout of new office place, Linc loaded its balance sheet with debt which stood at Rs 62 Cr in March 2018. However, it has now paid all its debt and has net cash position. Its cash reserves stood at Rs. 16 Cr as of December 2022.

Pentonic, given the strong demand, is being sold on cash-and-carry trade basis. Additionally, adoption of digitalized and improved distribution system has improved inventory turnover. Lower working capital requirements and improving profitability has improved company's cash generation while also bolstering its return profile. Linc aims to maintain a healthy, deleveraged balance sheet in the future by financing its operations largely through cash accruals.



(Source: Company, HDFC sec)

Key Concerns

Raw material risk: Over 50% of the total raw materials used by the company are crude oil-based; a rise in the crude oil prices can increase costs for the company which may not be passed over immediately.

Competition risk: The company operates in an industry that has high presence of unorganized industry. It faces intense competition especially in Rs. 10 and below product segment.

Seasonality: Historically, Q4 has been the strongest quarter for the company due to inventory buildup at dealer level for upcoming academic season.

Rapid digitization is a risk to the industry as consumption of pens/ink would reduce. However, the increasing penetration of electronic devices hasn't affected the pen and paper industry much, as the growth continues unabated.

Recurrence of Covid-19 pandemic and subsequent lockdowns

Company Overview

Incorporated in 1994 by Mr. S. M. Jalan, Linc Ltd. (formerly known as Linc Pen & Plastics Ltd.) is India's leading manufacturer, marketer and exporter of writing instruments and stationery products. Linc offers complete range of writing instruments through its two manufacturing facilities located at the Umbergaon (Gujarat) and Serakole (West Bemgal). Linc is among the top three players in the organized domestic writing instrument markers with ~8% pan India market share. Its products are exported to more than 50 countries, which contribute ~21% of its revenues (FY22). Linc is the exclusive distributor of Mitsubishi's Uni-ball brand in India. The company also enjoys a business-strengthening alliance with Deli (Asia's largest stationery manufacturer). Linc has its manufacturing units in Umbergaon (Gujarat) and Serakole (West Bengal).

Key brands of Linc Ltd.

(Source: Company, HDFC sec)

Changes in Shareholding Pattern (Promoter and institutional shareholding has increased over past two quarters)

Particulars	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	58.7%	58.7%	58.8%	59.3%
Institutions	0.1%	0.1%	0.1%	0.3%
Non Institutions	41.2%	41.2%	41.1%	40.4%

(Source: Company, HDFC sec)

Industry Overview

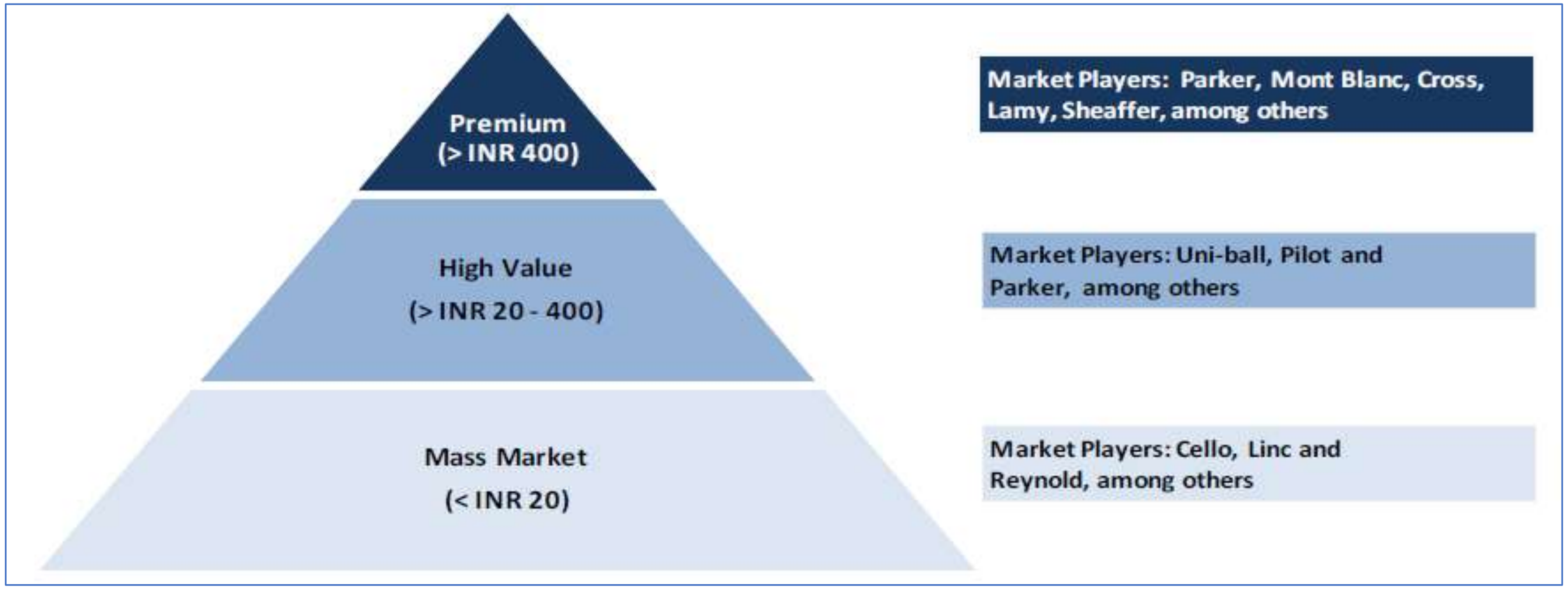
The global writing instruments sector was valued at US$ 15.9 billion in 2020 and was estimated to reach a market size US$ 20.6 billion by 2027, growing at a CAGR rate of 3.8%. The ballpoint and gel pens market is estimated to grow at a 5.7% CAGR from US$ 5.8 billion in 2020 to reach US$ 8.5 billion by 2027, while the roller pens segment, currently accounting for 9% share of the global instruments market, is anticipated to rise at a 4.2% CAGR during the time spanning from 2021 to 2027. The size of the writing instruments market in USA is estimated at US$ 52 billion and China's writing instrument market size is expected to reach US$ 33 billion, growing at a CAGR of 3.6%, over the analysis period between 2020 to 2027; Japan and Canada are among the other significant markets growing at a CAGR rate of 0.2% and 1.3% respectively.

The global stationery products market was estimated at US$ 24 billion in 2021 and forecasted to reach US$ 30 billion during the period 2021 to 2031, growing at a CAGR of 4%. The Asia-Pacific region has the largest contribution to the global stationery industry and is expected to reach US$ 29.2 billion by 2027.

Indian writing instruments industry: The Indian writing instruments industry consists of a non-paper based stationery industry comprising pens, pencils, markers and highlighters. Ball pens and gel pens account for the largest share in this market. The Indian stationery market enjoys growth potential as the country has over 25 crores students studying and requiring writing instruments and other stationery materials.

The writing instrument market size is about Rs 10,000 Cr expected to grow at over 8% per annum. ~80% of the revenue of the Indian pen industry comes from pens that are below Rs. 15 per piece. Linc, Cello, and Reynolds are the major players in the Indian pen market in the mass segment category, where the price of the writing instruments is below Rs. 20.

Broad segmentation of Indian pen industry



(Source: Company, HDFC sec)

Financials

Income Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	**367**	**397**	**257**	**355**	**479**	**576**	**682**
Growth (%)	***10.7***	***8.2***	***-35.3***	***38.3***	***34.9***	***20.2***	***18.5***
Operating Expenses	342	359	246	333	421	502	593
EBITDA	**25**	**38**	**10**	**22**	**58**	**73**	**89**
Growth (%)	***-1.5***	***50.7***	***-73.4***	***111.7***	***169.1***	***26.2***	***21.3***
EBITDA Margin (%)	***6.9***	***9.6***	***4.0***	***6.1***	***12.1***	***12.7***	***13.0***
Depreciation	10	13	13	13	15	16	18
Other Income	2	3	1	3	4	5	5
EBIT	**17**	**29**	**-1**	**12**	**47**	**62**	**76**
Interest expenses	6	5	3	1	1	1	1
PBT	**11**	**23**	**-4**	**11**	**46**	**61**	**75**
Tax	6	4	-4	3	12	16	19
PAT	**5**	**19**	**0**	**8**	**35**	**46**	**56**
Share of Asso./Minority Int.	0	0	0	0	0	0	0
Adj. PAT	**5**	**19**	**0**	**8**	**35**	**46**	**56**
Growth (%)	***-34.3***	***274.0***	***-99.7***	***16180.0***	***324.0***	***32.7***	***22.3***
EPS	3.5	13.0	0.0	5.5	23.2	30.8	37.7

Balance Sheet

Particulars (in Rs Cr) - As at March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS							
Share Capital	15	15	15	15	15	15	15
Reserves	106	122	120	128	155	191	236
Shareholders' Funds	**121**	**137**	**135**	**143**	**170**	**206**	**251**
Minority Interest	0	0	0	0	0	0	0
Total Debt	58	42	8	3	0	0	0
Net Deferred Taxes	7	5	4	4	4	4	4
Total Sources of Funds	**186**	**185**	**147**	**149**	**173**	**210**	**254**
APPLICATION OF FUNDS							
Net Block & Goodwill	75	74	67	82	77	101	102
CWIP	1	3	3	0	0	0	0
Investments	0	0	0	0	0	0	0
Other Non-Curr. Assets	17	17	16	6	9	10	12
Total Non Current Assets	**92**	**94**	**86**	**87**	**85**	**111**	**115**
Inventories	70	83	63	65	85	102	121
Debtors	42	44	36	34	46	54	64
Cash & Equivalents	0	0	0	0	19	17	44
Other Current Assets	27	23	15	15	10	13	15
Total Current Assets	**140**	**150**	**114**	**114**	**161**	**186**	**244**
Creditors	26	42	38	40	54	65	77
Other Current Liab & Provisions	21	17	14	12	20	24	29
Total Current Liabilities	**47**	**59**	**53**	**52**	**74**	**89**	**105**
Net Current Assets	94	91	61	62	87	97	139
Total Application of Funds	**186**	**185**	**147**	**149**	**173**	**210**	**254**

Linc Ltd.

Cash Flow Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	11	23	-4	11	46	61	75
Non-operating & EO items	-3	-3	0	0	-3	-2	-2
Interest Expenses	6	5	3	1	1	1	1
Depreciation	10	13	13	13	15	16	18
Working Capital Change	11	6	34	-1	-6	-12	-15
Tax Paid	-3	-6	2	-3	-12	-16	-19
OPERATING CASH FLOW (a)	**33**	**38**	**47**	**20**	**41**	**48**	**58**
Capex	-17	-14	-4	-14	-11	-40	-20
Free Cash Flow	16	25	43	6	30	8	38
Investments	0	0	0	0	0	0	0
Non-operating income	0	0	0	0	0	0	0
INVESTING CASH FLOW (b)	**-17**	**-14**	**-4**	**-14**	**-11**	**-40**	**-20**
Debt Issuance / (Repaid)	-8	-16	-38	-5	-3	0	0
Interest Expenses	-6	-5	-3	-1	-1	-1	-1
FCFE	2	3	3	1	27	8	38
Share Capital Issuance	0	0	0	0	0	0	0
Dividend	-2	-2	-2	0	-7	-10	-11
FINANCING CASH FLOW (c)	**-16**	**-24**	**-43**	**-6**	**-11**	**-10**	**-12**
NET CASH FLOW (a+b+c)	**0**	**1**	**1**	**1**	**19**	**-2**	**27**

One-year Share Price Data

Key Ratios

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)							
EBITDA Margin	6.9	9.6	4.0	6.1	12.1	12.7	13.0
EBIT Margin	4.7	7.2	-0.4	3.3	9.8	10.8	11.1
APAT Margin	1.4	4.9	0.0	2.3	7.2	8.0	8.2
RoE	4.3	15.0	0.0	5.9	22.1	24.4	24.5
RoCE	9.6	16.1	-0.7	8.0	29.7	33.0	33.1
Solvency Ratio (x)							
Net Debt/EBITDA	2.3	1.1	0.8	0.1	-0.3	-0.2	-0.5
Net D/E	0.5	0.3	0.1	0.0	-0.1	-0.1	-0.2
Per Share Data (in Rs)							
EPS	3.5	13.0	0.0	5.5	23.2	30.8	37.7
CEPS	10.6	21.4	8.6	14.1	33.3	41.4	50.1
Book Value	81.5	92.1	90.6	96.1	114.3	138.6	168.7
Dividend	1.5	1.5	0.0	1.8	5.0	6.5	7.5
Turnover Ratios (days)							
Debtor days	44	39	56	36	31	32	31
Inventory days	74	71	104	65	57	60	60
Creditors days	27	31	57	40	36	38	38
Valuation (X)							
P/E	170.8	45.9	17683.4	108.6	25.6	19.3	15.8
P/BV	7.3	6.5	6.6	6.2	5.2	4.3	3.5
EV/EBITDA	37.1	24.2	87.7	41.2	14.9	11.9	9.5
EV / Revenues	2.6	2.3	3.5	2.5	1.8	1.5	1.2
Dividend Yield (%)	0.3	0.3	0.0	0.3	0.8	1.1	1.3
Dividend Payout	43.1	11.6	0.0	32.9	21.5	21.1	19.9

(Source: Company, HDFC sec)

HARSH RAJENDRA SHETH

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.