

25 Feb 2016

Initiating Coverage (BUY)

Control Print

CMP

INR 280

Target Price

INR 410

Stock Details

Industry	Containers & Packaging
Bloomberg Code	CTPI:IN
BSE Code	522295
Face Value (Rs.)	10.00
Market Cap. (Rs. Mn)	4,388.30
52wk. High/Low (Adjusted) ((Rs.))	424.00 / 124.20

Shareholding Pattern Jun '15

Promoter (%)	55.83
FII (%)	9.07
DII (%)	7.36
Public - Other (%)	27.73
No. of Share Outstanding (mn)	15.67

Valuation Summary

	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	2.82	18.92	22.00	24.00
EV/EBITDA (x)*	1.80	14.67	13.65	14.80
P/BV (x)*	0.46	4.37	4.32	4.58

*Based On CMP on Reco Date for FY 15 and
Market Price as on 1st Apr is taken for FY14

Key Financial

Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	911	1,129	1,310	1,506
EBITDA	212	298	370	422
Net Profit	138	189	234	268
EPS (Rs.)*	14.3	18.1	14.9	17.1

*Un adjusted

Key Ratios

	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	23.3	26.4	28.2	28.0
EBIT Margin (%)	21.7	24.5	26.3	26.2
Net Pro. Margin (%)	15.1	16.7	17.9	17.8
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	17.8	20.5	21.3	20.7
RoCE (%)	16.9	19.6	20.5	19.9

One Year Price / Volume



We recommend 'BUY' on Control Print for a target of INR 410 - valuing the company at P/E of 24.0x FY17E Earning.

INVESTMENT RATIONALE:

- Prominent player in oligopolistic market, Control Print (CPL) is having ~16% market share and is strong in the industrial and packaging segment. Domestic coding and marking industry consists only four major market player.
- Increasing share of consumables which is a high margin product with growing base of installed printers
- Enhanced capacity, balance sheet strength to aid growth
- Coding & marking industry on strong footing; increasing usage, application to drive growth

VALUATIONS AND VIEW:

CPL has a strong balance sheet with gross debt of Rs. 8.2 crore as of FY15 against which it has equity investments amounting to Rs. 10.3 crore making it a debt free company on net debt basis. The company also has strong double digit return ratios (FY15 RoE at ~20%, RoCE at ~20%). CPL has recently commissioned a new manufacturing facility in Guwahati (capex Rs. 25 crore) and thus has minimal capex requirements over FY15-18E. With robust demand drivers in place, on the back of stringent legal requirements over display of necessary details on manufactured products, better supply chain management by virtue of tracking the coded print on products and the company's focus on increasing the application of coders and markers domestically, CPL is on a strong footing with robust prospects, going forward. We expect the share of consumables to increase to ~77% by FY18E, driving the expansion in EBIT margins from 24.5% in FY15 to 36.2% by FY17E. Thus, with good demand drivers in place and increasing penetration of coders and markers, We value the business at 24x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 410 per share.

RISK & CONCERNS:

Extended working capital cycle and any further stretching of the working capital cycle will result in increased leveraging of balance sheet: CPL is an indigenous manufacture of printers and their associated consumables and has an extended working capital cycle. Net working capital days at CPL as of FY15 were at 200 days consisting of inventory days at 180 days, receivable days at 100 days and creditor days at 80 days. CPL's net working cycle is extended vis-à-vis its competitors (unlisted players) as they mainly import machines and necessary spare parts from foreign countries into India and does that on a need-to-use basis. CPL, on the other hand, maintains a whole lot of inventory of spare parts of printers and finished goods i.e. consumables so as to provide timely delivery of the same to its customers. However, any further stretching of the working capital cycle will result in increased leveraging of balance sheet, a consequent drop in PAT margins and poor cash flow generation for CPL.

Switching of Customer can cause to a muted margin: Coding and marking industry as a whole is such that, No player make high operating margins on the printers sold to their customers and can't bet on the high margin consumables, which are to be supplied to their respective customers over the life of the printer for earning profits. The average cost of a coder/marker/printer is ~Rs. 1.5 lakh per machine. However, the average consumables supply required by the printer is ~ Rs. 1.0 lakh/year or Rs. 10 lakh over the life of printer (eight to 10 years). Thus, any shift of existing customer that have the installed printer towards competitors for purchase of consumables will hit the profitability of original printer supplier and its IRR from the given customer. Generally, ~10% migration is an industry trend. Any further migration will lead to muted margins and return ratios for industry players.

COMPANY BACKGROUND:

Control Print Limited (CPL) headquartered in Mumbai was established in the year 1991. The Company provides products and services in the coding and marking industry.

CPL provides products and solutions for a range of manufacturing industries, which include Automotive, Agro-Chemicals, Metals, fast moving consumer goods (FMCG), Pharmaceutical, Food and Beverage, Wire and Cable, Pipe, Construction Materials and Commercial Printing.

Its product portfolio includes Continuous Inkjet Printers (CIJ), drop-on-demand Valve jet printers/Large Character Printer (LCP), Thermal Transfer Over-printers (TTO), Thermal Inkjet Printers (TIJ), Laser coders, Thermal Ink coders, Piezo high resolution drop-on-demand Inkjet Printers (HR), and related consumables and spares.

Liberty Chemicals Private Limited is a wholly owned subsidiary of the Company. CPL has two modern manufacturing centers located at Vasai and Nalagarh. There is also an additional fluids facility capable of manufacturing the entire range of solvents and inkrolls.

The Vasai centre, spans over 8,000 square feet (sq. ft.) and is a hub for assembly and manufacture of the entire product range of CPL. The entire range of CPL's inks is also manufactured at this facility. The Nalagarh centre commenced production in 2008. It spans over 20,000 sqft having arrangements for assembly and manufacture of not only CPLs entire product range but also for manufacture of components and entire sub-assemblies required for the products enabling further improvements in quality control and cost efficiencies.

CPL has successfully transformed itself from a distributor of printers and consumables to an indigenous manufacturer domestically. The company is a prominent player in the four-player oligopolistic industry. As per industry sources, the domestic coding and marking industry size is pegged at Rs. 550-600 crore. The main players are Videojet with a market share of ~29%, Domino Printech at ~33%, Markem-Imaje at ~22% and Control Print at ~16%. Domino is strong in the food & beverages segment while Markem-Imaje is strong in the pharmaceuticals sector. CPL, on the other hand, is strong in the industrial and packaging segment.

CPL informed the Exchange on 27th May, 2015 that the commercial production and operations at the Company's new plant located at Palasbari, Guwahati, Assam commenced from 26th May, 2015. This plant is built on an area of 6 Bigha and shall focus on manufacturing the entire range of consumables for the comprehensive Coding and Marking Solutions product range. This facility will be manufacturing Continuous Inkjet Printer An Initiative of the BSE Investors' Protection Fund3 Performance on the Bourses

Peer Comparison Consumables, Large Character Printer Consumables, Hot Quick Coder and Hot Roll Coder Ink Rolls and Filters. Further, the unit shall be availing tax benefits under Section 80IE of the Income Tax Act besides certain other Excise/VAT related benefits/refunds/exemptions.

CPL informed the Exchange on 1st July, 2015 that the Board of Directors approved the conversion of 6,00,000 Warrants (issued in January, 2014 at a price of Rs. 53.23 including premium of Rs. 43.23 per share) into Equity Shares of the Company. Consequent to the allotment, the total paid up capital of the Company shall stand increased to Rs. 10,44,82,480 divided into 1,04,48,248 Equity Shares of Face Value of Rs. 10 each.

CPL informed the Exchange on 14th January, 2016 that the Board of Directors of the Company allotted 5,224,124 Bonus Equity Shares of Rs. 10 each in the ratio of 1 Equity Share of Face Value of Rs. 10 each for every 2 Equity Shares of Face Value of Rs. 10 each to the members of the Company. Consequent to the allotment of bonus shares, the issued, subscribed and paid-up share capital of the Company stands increase from Rs. 104,482,480 dividend into 10,448,248 Equity Shares of Rs. 10 each to Rs. 156,723,720 dividend into 15,672,372 Equity Shares of Rs. 10 each.

INDUSTRY OVERVIEW:

The industry of Coding and Marking is driven by legal requirements to provide product information to customers, printing specifications, ISI logo and Company logo; inventory control by reduction in wastage of packaging material and printing on the production line; traceability of products by date of manufacture, batch numbers, shift numbers, and real time-date and ensuring quality control, counterfeit prevention, marketing promotion by printing variable information and logos.

Overall the industry growth is closely co-related to packaging industry growth and the manufacturing sector growth as a whole. The Indian Coding & Marking industry has reached a level of maturity and acceptance across applications and is dominated value-wise by 4 players with CPL being amongst them.

The marking and coding industry is growing rapidly in India almost at a Compound Annual Growth Rate (CAGR) of approximately 15%. Being a manufacturer of majority of the items required for Coding and Marking industry and having a leadership edge in technological terms, CPL has an advantage over other players in the industry and can increase market share and installed base. The primary threat is the greater installed base of a few key competitors enabling them to get a higher number of repeat and reference sales. In addition in certain products & applications the competition is well entrenched and therefore establishing market share will be a lengthy and difficult exercise.

As the Indian Packaging Industry has developed and also with the further maturation of various Coding Technologies worldwide there is a consistent growth in overall market size. However, the growth is spread across all the various Coding technologies rather than around Continuous Inkjet Technology as was the case in the past. This is both an opportunity and a threat depending upon how successful CPL is in establishing market share in these other Coding Technologies. CPL is working on providing a variety of strong products coupled with marketing & distribution muscle behind these products to be successful across the Entire Coding Technology Spectrum.

The market is witnessing better integration capabilities among marking and coding products and machinery used on production and packaging lines. CPL aims to mark its presence in all possible segments with upgraded model. In the past years Company has seen reasonable sales and profit growth and management is confident that CPL can maintain steady growth in the future as well.

Q3FY16 Performance Overview:

- Net Sales increased by 12.25% YoY to Rs. 30.43 cr in Q3'FY16
- Q3'FY16 PBT grew by 19.59% YoY to Rs. 8.24 cr
- Q3'FY16 PAT grew by 16.54% YoY to Rs. 6.06 cr

Q3 FY16 Performance Highlight (Standalone Basis)							
(in Million)	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	YoY (%)	QoQ (%)
Revenue	27.11	30.49	31.68	36.69	30.43	12.25%	-17.06%
Other Income	-0.01	0.73	0.02	0.25	0.15		
Total Income	27.09	31.22	31.70	36.94	30.58	12.88%	-17.22%
Expenditure	-19.47	-22.90	-23.34	-25.96	-21.35		
As a % of Sales	71.82%	75.11%	73.67%	70.75%	70.16%		
Interest	-0.27	-0.23	-0.23	-0.73	-0.3	11.11%	-58.90%
PBDT	7.36	8.09	8.13	10.25	8.92		
As a % of Sales	27.15%	26.53%	25.66%	27.94%	29.31%		
Depreciation	-0.47	-0.47	-0.57	-0.65	-0.68		
PBT	6.89	7.63	7.56	9.61	8.24	19.59%	-14.26%
As a % of Sales	25.41%	25.02%	23.86%	26.19%	27.08%		
Tax	-1.68	-2.81	-1.55	-2.32	-1.85	10.12%	-20.26%
Net Profit	5.2	3.83	6.01	7.29	6.06	16.54%	-16.87%
As a % of Sales	19.18%	12.56%	18.97%	19.87%	19.91%		
Equity	9.85	9.85	10.45	10.45	10.45	6.09%	0.00%
EPS (Rs)	5.37	3.84	6.1	6.98	5.8	8.01%	-16.91%
CEPS (Rs)	5.75	4.36	6.3	7.6	6.45		
OPM %	28.14	27.28	26.4	29.93	30.31		
NPM %	19.17	12.56	18.98	19.88	19.91		

FINANCIAL OVERVIEW

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	665	798	911	1,129	1,310	1,506	1,732
Other Operating Income	-	-	-	-	-	-	-
Expenditure	576	646	708	857	950	1,096	1,253
EBITDA	89	152	203	272	360	410	479
Depreciation	11	12	14	21	25	27	28
EBIT	78	140	189	251	334	384	451
Interest Expenses	13	3	7	10	11	14	15
PBT	65	137	181	240	323	370	435
Tax	26	26	53	78	99	113	133
Other Income	3	4	9	13	10	11	12
Extraordinary Items	38	6	(0)	13	-	-	-
Net Income Before Adjustment	80	122	138	189	234	268	314
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	80	122	138	189	234	268	314

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	87	91	91	98	98	98	98
Reserves & surplus	505	617	727	899	1,084	1,297	1,547
Share Warrants	4	5	18	8	8	8	8
Misc Expenditure	-	-	-	-	-	-	-
Net worth	596	713	836	1,005	1,191	1,404	1,653
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	1	1	0	0	0	0	0
Net deferred tax liability	24	27	27	25	25	25	25
Other Long-term Liabilities	7	7	7	7	8	9	18
Long-term Provisions	5	6	8	13	15	17	20
Total Liabilities	633	754	879	1,051	1,239	1,457	1,718
Net block	186	214	271	382	403	427	453
Investment, Loan & Adv.	136	207	164	130	122	125	108
Total Current Assets	446	541	711	858	1,065	1,295	1,584
Current Liabilities & Provisions	135	209	268	321	352	392	429
Net Current Assets	311	332	444	537	713	903	1,155
Total Assets	633	754	879	1,051	1,239	1,457	1,718

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
Operating Cash Flow	85	162	191	230
Cash Flow from Investments	(81)	(42)	(57)	(42)
Cash Flow from Financing	(1)	(26)	(47)	(54)
Net Changes in Cash	2	93	86	134
Opening Cash	8	10	103	189
Closing Cash Balance	10	103	189	324

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