Research
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It's Advice, Not Adventure

December 28, 2015

Nano Nivesh

Key risks to investing in Nano stocks

- Nano stocks may not be in the limelight and inherently being micro cap in nature will have a high risk return profile

- We advise clients to be disciplined in investing at all times. Allocate only a small proportion of your investible income to these stocks and diversify well

- Try to diversify your exposure within the Nano stocks as well by investing equal proportions in several picks

- These stocks may have low volumes and trade infrequently

- Micro cap stocks the world over are, to a large extent, affected by the "Pump and Dump" phenomenon of inflated price buying and depressed price selling

- As explained above, the clients should be patient and trade only through limit orders on any side of the trade.

- The risk of volatility remains in such micro cap stocks as they can move up or down with large buy/sell orders

- The fair value of Nano stocks are subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it

Nano stocks report tries to highlight companies with good and scaleable business models, dependable management and sound financials. However, these stocks may not be in the limelight and have a high risk high return potential. Please watch out for the following factors before investing in these stocks:

Allocate a small proportion of your investible income to these stocks and diversify well. If you choose to invest in these stocks, most of your assets allocated towards equity should remain in more stable investments like stocks of large companies. Moreover, try to diversify your exposure within the nano stocks as well by investing equal proportions in several picks. This will help you avoid losing too much of your total wealth if the investments do not turn out well. When you invest in micro-cap stocks there is a higher risk of impairment.

These stocks may have low volumes and trade infrequently. This can create a situation in which you may not be able to find any willing buyers for your stocks when you wish to sell. We advise our clients to be patient and trade only though limit orders to avoid volatile fluctuations, both while putting a buy and sell order in these stocks.

December 28, 2015

Control Print (CONPRI)

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Control Print (CPL) is a leading coding and marking player domestically with manufacturing capability in printing machines (printers), spare parts & associated consumables (ink). With stringent legal requirements on display of necessary details on manufactured 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 sales and PAT to grow at a CAGR of 21.5% and 28.9%, respectively, in FY15-18E.

Price

₹ 528

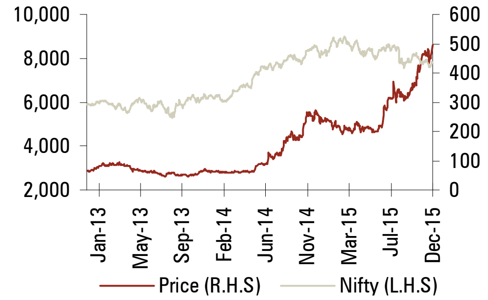
Recommendation

Buy

Fair value

₹ 625-660

Price performance



Highlights

- **Prominent player in oligopolistic market:** 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 ₹ 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
- **Increasing share of consumables, margin accretive:** In FY12-15, sales grew at a CAGR of 19.3% while PAT grew at a CAGR of 33.3% in FY12-15 primarily on the back of 1050 bps expansion in EBITDA margin. Margin expansion in FY12-15 was primarily on account of a change in product mix in favour of consumables, which is a high margin product with growing base of installed printers. Share of consumables in FY12 gross sales was at 29% while the same in FY15 was at 73%. We expect the share of consumables to increase to ~78% by FY18E, driving the expansion in margins from 24.2% in FY15 to 30.0% by FY18E
- **Enhanced capacity, balance sheet strength to aid growth:** CPL has recently commissioned a new manufacturing facility in Guwahati (capex ₹ 25 crore). This facility is initially being ramped up for manufacturing consumables, which is a high margin business. CPL has a lean balance sheet and strong return ratios (FY15 RoE: 20%, RoCE: 27%). Thus, with good demand drivers in place and increasing penetration of coders and markers, we expect sales and PAT to grow at a CAGR of 21.5% and 28.9%, respectively, in FY15-18E. We value CPL at ₹ 625-660, i.e. 18-19x P/E on FY17E and FY18E average EPS of ₹ 34.8/share

Key risks-

Business specific

Installed printers – customer switch: In the current coding and marking industry, none of the players make good operating margins on the printers sold to their customers and 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 ~₹ 1.5 lakh per machine. However, the average consumables supply required by the printer is ~ ₹ 1.0 lakh/year or ₹ 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 specific

Elongated working capital cycle: By virtue of indigenous manufacture of printers and their associated consumables, CPL has an elongated 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 elongated 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.

Description

CPL is a leading coding and marking industry player with manufacturing capability in printing machines (printers), spare parts and associated consumables (ink). Revenues have grown at 19.3% CAGR in FY12-15 to ₹ 113 crore in FY15 (₹ 67 crore in FY12). Revenues mainly consist of manufactured goods, which comprise ~76% (₹ 87 crore) of total sales in FY15, services that comprised ~6% (₹ 7 crore) and traded goods, which constituted the remaining ~18% (₹ 21 crore) in FY15. In FY15, EBITDA was ₹ 27.3 crore (EBITDA margins at 24.2%) with consequent PAT at ₹ 19.2 crore (PAT margins at 17.0%). Sales can also be sub-divided into coding & marking systems, which in FY15 were at ₹ 24.3 crore (1669 machines, blended net realisation ₹ 1.5 lakh/machine) and consumables, which were at ₹ 84 crore. Control Print is listed on BSE

History and track record

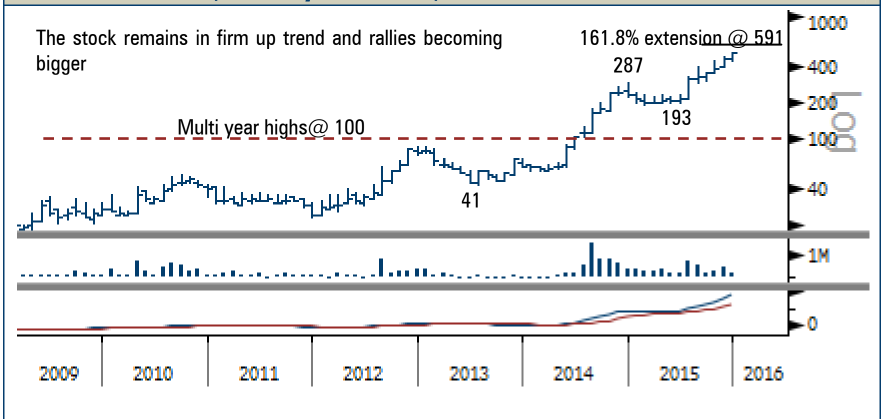
- CPL started its journey in 1991 by venturing into the inkjet printer market and was primarily a distributor of Videojet printers
- In 2008, CPL ended its association with Videojet and started indigenous manufacture of printers in India under its own brand name although in technical collaboration with various international agencies like KBA Metronic (Germany) and Macsa
- CPL commenced production at its Nalagarh plant in July 2007. It includes production of inkjet printers, large character printers, thermal transfer over printers and consumables
- FY09 and FY10 were years of struggle for CPL wherein it reported subdued profitability. EBITDA margins dropped to ~6%
- After attaining a sizeable printer base with assured consumables demand (high margin business), CPL finally turned around its operations in 2013. EBITDA margins improved to ~19%
- The Board of Directors of CPL in its meeting on November 17, 2015 approved the issuance of bonus shares to existing shareholders in the ratio of 1:2 i.e. for every two shares held by a shareholder he/she is entitled to receive one share as bonus. CPL has sought shareholder approval for the same and is yet to announce the record date

Earning estimates

₹ crore	FY14	FY15	FY16E	FY17E	FY18E
Total Operating Income	91.0	112.9	140.7	171.8	202.3
EBITDA	20.4	27.3	37.0	48.1	60.7
EBITDA margin (%)	22.4	24.2	26.3	28.0	30.0
PAT	14.1	19.2	25.3	31.7	41.1
EPS	15.6	19.5	24.2	30.4	39.3

Source: Company, ICICIdirect.com Research

Technical Chart (Monthly Bar chart)



Source: Bloomberg, ICICIdirect.com Research

Stock data

Market Capitalization (₹ crore)	552.0
52 Week High / Low (₹)	529 / 186
Promoter Holding (%)	55.8
FII Holding (%)	9.1
DII Holding (%)	0.0
Dividend Yield (%)	0.8
12M / 6M stock return (%)	103 / 164
Debt (₹ crore)	8.2
Cash and Cash Equivalent (₹ crore)	11.4
Enterprise Value (₹ crore)	549
5 Year Revenue CAGR (%) (FY10-15)	19.7
5 Year EBITDA CAGR (%) (FY10-15)	58.9
5 Year PAT CAGR (%) (FY10-15)	55.9

Valuation

	FY15	FY16E	FY17E	FY18E
P/E	26.1	21.8	17.4	13.4
Target P/E	31.1	25.9	20.7	16.0
EV / EBITDA	20.1	14.7	11.2	8.7
P/BV	5.1	4.6	3.9	3.3
RoNW	19.5	20.9	22.5	24.6
RoCE	26.5	27.5	32.2	37.7
ROIC	29.8	29.4	33.6	38.9

Source: ICICIdirect.com Research

Quarterly performance

(₹ crore)	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Sales	27.1	30.5	31.7	36.7
EBITDA	5.8	8.5	8.3	10.7
EBITDA Margin (%)	21.2	27.8	26.1	29.1
Depreciation	0.5	0.5	0.6	0.6
Interest	0.3	0.2	0.2	0.7
Other Income	0.0	0.7	0.0	0.3
PAT	5.2	3.8	6.0	7.3
EPS (₹)	5.4	4.9	6.1	7.0

Source: ICICIdirect.com Research

Shareholding trend (%)

Key Shareholders	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Promoter group	53.1	53.1	55.8	55.8
FII	9.6	9.6	7.6	9.1
DII	0.0	0.0	1.5	0.0
Non-institutional	37.2	37.2	35.1	35.1

Source: ICICIdirect.com Research

Technical View

The long term charts depict a firm uptrend for the share price of Control Print. The most promising observation on the long term charts is the magnitude of rallies getting bigger post the multi-year break-out in mid-2014 (₹ 100). This signals a robust price structure and a well established up trend for the stock

The current rally off the 2015 lows of ₹ 193 is already bigger in magnitude compared to the previous one. We, therefore, project 161.8% extension of the previous major up move (₹ 41-287) to arrive at a target price of ₹ 591 over a one year period

Among momentum oscillators, the monthly MACD indicator is seen diverging from its nine month average indicating strong momentum in the current uptrend and supports the overall bullish bias

What's the story?

Coding & marking industry on strong footing; increasing usage, application to drive growth!!!

The coding and marking industry primarily consists of printers (coders/markers) along with consumables that are required to print essential product details like manufacturing date, expiry date, batch number, maximum retail price, manufacturing location, etc. on any manufacturing product. It is used across sectors like personal care, food & beverages, pharmaceuticals, construction materials (steel, cement), extruded products (cable, wire, pipes), agro-chemicals, chemicals, etc. Demand factors that will drive the usage of printers and associated consumables are: legal requirements (providing product information to customers), inventory control, traceability (tracking products by date of manufacture, batch numbers), branding (printing of logos, customer perception) and counterfeit prevention. Therefore, with growing consumer awareness, consumers shift towards branded products, higher disposable per capita income coupled with greater application of coder and markets, the domestic industry is on a strong footing with robust prospects, going forward.

Prominent player in oligopolistic market; aims to outsize industry growth rate!!!

As per industry sources, the domestic coding and marking industry size is pegged at ₹ 550-600 crore (FY15). The industry has grown at a CAGR of ~15-16% (1.2-1.5x nominal GDP growth rate) in the past decade and is expected to grow at a CAGR of ~12-13% over FY15-18E. The Indian coding & marking industry is oligopolistic in nature with majority being catered to by four major players. The Indian coding & marking industry is also mostly organised and enjoys a good brand royalty. The main players are Videojet with a market share of ~29% (₹ 155 crore), Domino Printech (market share ~33%, ₹ 185 crore), Markem-Imaje India (market share ~22%, ₹ 125 crore) and Control Print (market share ~16%, ₹ 105 crore). 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 realises 50% of its revenues from industrial customers with a stronghold in sectors like steel, metal, cables & wires, pipes, cement, float glass, etc. with key clients being Tata Steel, UltraTech among others.
CPL realises the balance 50% of its sales from the packaging sector with key clients like HUL among others. The main differentiating factor between CLP and its competitors is that CPL manufactures all printers (coder/marker) domestically while its competitors simply import the same from their parent and sell it in India. Thus, CPL by virtue of indigenous manufacturing capabilities is able to compete effectively with its competitors and at the same time earn good margins on its product profile. It is also a natural beneficiary of domestic currency depreciation since it becomes a tad expensive for its competitors to import the machines & consumables into India. CPL is aiming to outgrow the industry and is targeting a CAGR of 20% (~2.5x GDP growth rate) in FY15-18E with ~100-150 bps gain in market share primarily on the back of increasing application of coders and markers domestically, CPL's pricing power and enhanced production derived out of the new manufacturing facility in Guwahati (North East India).

Increasing share of high margin consumables business to further aid EBITDA margins!!!

In FY12-15, sales grew at a CAGR of 19.3% to ₹ 112.9 crore while PAT grew at a CAGR of 33.3% in FY12-15 to ₹ 19.2 crore primarily on the back of 1050 bps expansion in EBITDA margin. EBITDA margin in FY15 was at 24.2% while the same in FY12 was at 13.7%. Margin expansion in FY12-15 was primarily on account of a change in product mix in favour of consumables, which is a high margin product. Share of consumables in FY12 gross sales was at 29% while the same in FY15 was at 73%. We expect sales to grow at a CAGR of 21.5% in FY15-18E to ₹ 202.3 crore in FY18E. Sales growth will be led by consumables, which are expected to grow at a CAGR of 23% in FY15-18E to ₹ 158 crore in FY18E (₹ 84.1 crore in FY15) primarily on the back of higher installed printer base. The printer sales growth, however, is expected to be moderate at 8% CAGR in FY15-18E to ₹ 30.9 crore in FY18E (₹ 24.3 crore in FY15). Therefore, the share of consumables is expected to increase to ~78% by FY18E vs. 73% in FY15. This will further drive the margin expansion at CPL from 24.2% in FY15 to 30.0% by FY18E.

Debt free balance sheet, strong return ratios warrant re-rating!!!

CPL has a lean balance sheet with gross debt of ₹ 8.2 crore as of FY15 against which it has equity investments amounting to ₹ 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 27%). CPL has recently commissioned a new manufacturing facility in Guwahati (capex ₹ 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 sales and PAT to grow at a CAGR of 21.5% and 28.9%, respectively, in FY15-18E. We value CPL at ₹ 625-660, i.e. 18-19x P/E on FY17E and FY18E average EPS of ₹ 34.8/share.

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY15	FY16E	FY17E	FY18E
Net Sales	112.9	140.7	171.8	202.3
Other Operating Income	0.0	0.1	0.0	0.0
Total Operating Income	112.9	140.7	171.8	202.3
Growth (%)	24.0	24.7	22.1	17.8
Raw Material Expenses	40.7	48.6	55.0	60.7
Employee Expenses	21.3	27.3	34.4	40.5
Other Operating Expense	23.6	27.8	34.4	40.5
Total Operating Expenditure	85.6	103.7	123.7	141.6
EBITDA	27.3	37.0	48.1	60.7
Growth (%)	34.1	35.5	29.9	26.2
Depreciation	1.9	2.6	3.5	3.8
Interest	1.1	1.4	1.4	1.2
Other Income	3.6	0.7	0.9	1.2
PBT	28.0	33.8	44.1	57.0
Exceptional Item	1.0	0.0	0.0	0.0
Total Tax	7.8	8.5	12.3	15.9
PAT	19.2	25.3	31.7	41.1
Growth (%)	35.8	31.9	25.6	29.4
EPS (₹)	19.5	24.2	30.4	39.3

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY15	FY16E	FY17E	FY18E
Profit after Tax	19.2	25.3	31.7	41.1
Add: Depreciation	1.9	2.6	3.5	3.8
(Inc)/dec in Current Assets	-15.4	-21.1	-20.8	-19.6
Inc/(dec) in CL and Provisions	2.9	6.0	6.1	6.0
Others	1.1	1.4	1.4	1.2
CF from operating activities	9.7	14.1	21.9	32.3
(Inc)/dec in Investments	2.7	-2.0	-3.0	-10.0
(Inc)/dec in Fixed Assets	-13.2	-4.0	-4.0	-4.0
Others	1.2	0.0	0.0	0.0
CF from investing activities	-9.3	-6.0	-7.0	-14.0
Issue/(Buy back) of Equity	0.8	0.6	0.0	0.0
Inc/(dec) in loan funds	3.0	2.0	-2.0	-1.0
Dividend paid & dividend tax	-4.7	-8.8	-11.3	-15.0
Inc/(dec) in Share Cap	-1.0	-0.8	0.0	0.0
Others	1.9	1.2	-1.4	-1.2
CF from financing activities	-0.1	-5.7	-14.7	-17.2
Net Cash flow	0.3	2.4	0.2	1.1
Opening Cash	0.8	1.1	3.5	3.7
Closing Cash	1.1	3.5	3.7	4.8

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY15	FY16E	FY17E	FY18E
Liabilities				
Equity Capital	9.9	10.5	10.5	10.5
Reserve and Surplus	92.0	110.3	130.7	156.8
Total Shareholders funds	101.8	120.7	141.2	167.2
Total Debt	8.2	10.2	8.2	7.2
Deferred Tax Liability	2.5	2.5	2.5	2.5
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	112.5	133.4	151.9	176.9
Assets				
Gross Block	28.6	48.2	52.2	56.2
Less: Acc Depreciation	10.3	12.9	16.4	20.2
Net Block	18.3	35.3	35.8	36.0
Capital WIP	15.6	0.0	0.0	0.0
Total Fixed Assets	33.9	35.3	35.8	36.0
Liquid Investments	10.3	12.3	15.3	25.3
Other Investments	5.5	5.5	5.5	5.5
Inventory	56.1	69.4	82.4	94.2
Debtors	26.9	34.7	42.4	49.9
Loans and Advances	3.6	3.7	3.8	4.0
Other Current Assets	0.4	0.4	0.4	0.4
Cash	1.1	3.5	3.7	4.8
Total Current Assets	88.1	111.6	132.6	153.4
Creditors	17.8	23.1	28.2	33.3
Provisions	7.4	8.1	9.0	10.0
Current Liabilities & Prov	25.2	31.2	37.3	43.2
Net Current Assets	62.9	80.4	95.3	110.2
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	112.5	133.4	151.9	176.9

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY15	FY16E	FY17E	FY18E
Per share data (₹)				
EPS	19.5	24.2	30.4	39.3
Cash EPS	21.4	26.7	33.7	42.9
BV	103.4	115.5	135.1	160.0
DPS	4.0	7.0	9.0	12.0
Cash Per Share (Incl Invst)	1.1	3.3	3.5	4.6
Operating Ratios (%)				
EBITDA Margin	24.2	26.3	28.0	30.0
PBT / Total Op. income	24.8	24.0	25.7	28.2
PAT Margin	17.0	18.0	18.5	20.3
Inventory days	181.4	180.0	175.0	170.0
Debtor days	87.0	90.0	90.0	90.0
Creditor days	57.5	60.0	60.0	60.0
Return Ratios (%)				
RoE	19.5	20.9	22.5	24.6
RoCE	26.5	27.5	32.2	37.7
RoIC	29.8	29.4	33.6	38.9
Valuation Ratios (x)				
P/E	27.1	21.8	17.4	13.4
EV / EBITDA	20.1	14.7	11.2	8.7
EV / Net Sales	4.9	3.9	3.1	2.6
Market Cap / Sales	4.9	3.9	3.2	2.7
Price to Book Value	5.1	4.6	3.9	3.3
Solvency Ratios				
Debt/EBITDA	0.3	0.3	0.2	0.1
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	3.4	3.5	3.4	3.4
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICIdirect.com Research

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