

14th September 2023

Linc Ltd. – BUY

CMP : Rs. 703
Target Price : Rs. 908
Upside : 29 %
Stop Loss : Rs. 633 (Closing basis)

Investment Thesis

- Linc has presence across all stationery categories with over 2,000 products. Linc outsources world-class products from marquee international brands like Uni: Global brand from Mitsubishi Pencil Co. Ltd, Japan. Uni enjoys a presence across all categories of writing instruments like roller pen, gel pen and ball pen. Deli: Asia's largest stationery giant.
- Linc has a capacity addition plan with a Capex of Rs. 50 Cr in its Gujarat facility by putting up an additional facility adjacent to its existing factory. While the basic infrastructure has been created to double its capacity to 20 lakh pens per day, equipment will be added in modular fashion in sync with the demand needs.
- Linc has formed a subsidiary – Morris Linc Ltd. with Morris, a global writing instrument and stationery player based out of South Korea, with an aim to manufacture co-branded pens in India having a strong export opportunity.
- The company has a robust distribution reach across 5 lakh outlets (which was just 65,000 three years ago) growing at a fast pace. Linc also exports to around 40 countries having a strong presence in Southeast Asia, Africa, the Middle East, Brazil and Russia. Besides this, the company is also looking to increase its e-commerce sales (currently e-commerce sales are around 3% of total revenue).
- Linc has a vast product portfolio and is further aiming to expand this by launching three new products under the Pentonic portfolio this year. The Deli brand is expected to achieve a topline of ~Rs. 75 Cr by FY25. Pentonic sales continue to grow, with its share increasing to over 36%. The company's highest margins are in the Pentonic brand, followed by Uni-Ball and Deli brands.
- The Pentonic brand was the biggest growth driver of Linc's overall performance in the previous Financial Year generating a revenue of Rs. 143 Cr which accounted for a lion's share of 30% of total revenues as of FY23. During the year under review, Pentonic was responsible for 63% of the company's revenue growth; the brand accounted for 15% of the company's exports.

Financials

- Revenue grew strongly by 37.1% to Rs. 486 Cr as compared to Rs. 354 Cr during the preceding year. The PAT was at Rs. 37 Cr as compared to Rs. 8 Cr in the previous year, a huge jump of 360%.

| Particulars | FY20 | FY21 | FY22 | FY23 | FY24E |
|----------------------|-------|--------|------|-------|-------|
| Revenue (Rs in Crs) | 393 | 257 | 355 | 487 | 604 |
| EBITDA (Rs in Crs) | 41 | 11 | 25 | 65 | 85 |
| Adj. PAT (Rs in Crs) | 19 | 0 | 8 | 37 | 42 |
| Adj. EPS (Rs.) | 12.94 | 0.03 | 5.47 | 25.15 | 28.37 |
| PE Multiple (x) | 54x | 23433x | 129x | 28x | 25x |
| RoE (%) | 16% | 0% | 6% | 23% | 26% |

Stock Data

| | |
|-----------------------|-----------|
| Market Cap (Rs. Crs) | 1,046 |
| Market Cap (\$ Mn) | 126 |
| Shares O/S (in Mn) | 14.9 |
| Avg. Volume (3 month) | 29,399 |
| 52-Week Range (Rs.) | 810 / 244 |

Shareholding Pattern

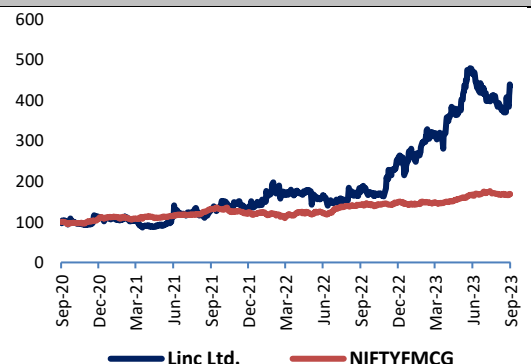
| | |
|-------------------------------|---------|
| Promoters | 59.28 % |
| FII's | 0.94 % |
| Institutions | 0.00 % |
| Others (incl. body corporate) | 39.78 % |

Key Ratios

| | |
|---------------|----------|
| Div Yield | 0.71% |
| TTM PE | 26.6x |
| ROE | 23.50 % |
| TTM EPS (Rs.) | 27.17 /- |

Stock Performance

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|--------|-------|--------|
| ABSOLUTE | (1%) | 40.2% | 150.3% |
| NIFTYFMCG | (0.8%) | 27% | 132% |



- The robust revenue growth was due to increase in share of Pentonic revenue to ~30%, along with price increase of Linc Pens during the year, the Gross Profit Margin expanded to 31.2% (740bps growth YoY).
- The Gross profit witnessed a strong growth up by 80%, while the overheads grew only by 44%, thus indicating a robust operating leverage, which resulted in a stellar growth in the EBITDA growing by 185% YoY. The EBITDA margin followed on similar lines almost doubling from 7% in FY22 to 13.5% in FY23.
- Consequently, the PAT achieved highest growth at Rs. 37 Cr (up by more than 4x YoY) and PAT margin at 7.6% (2.6% in FY22).

Key Business Highlights

- Linc provides one of the widest product portfolios in the industry - gel pens, ball pens, fountain pens, markers, mechanical pencils, files and folders, providing a range of branded products marketed under the following brands - Linc, Lincplus, Pentonic, Uniball, Deli and Markline.
- Pentonic brand was introduced in FY19 as a minimalistic yet contemporary pen, known for its aesthetics as well as writing smoothness. Positioned at Rs. 10 + segment, Pentonic's GPM is ~ 42%. Increase in share of Pentonic in total revenue lead to higher GPM at the company level. Pentonic pen volume increased by over 53%.
- Linc plans to increase its existing capacity at Gujarat from 10 lacs pen per day to 15 lacs pen per day in FY'25 & to 20 lacs pen per day subsequently, having a revenue potential of ~15,000 lacs at full capacity.
- The companies exports surged by 34% from Rs. 75.6 Cr to Rs. 101.4 Cr, thus widening their international presence, and acquiring new clients in Argentina, Saudi Arabia, Kuwait, Bhutan and Sri Lanka.
- The distribution has expanded from stationary stores to large format outlets and kiranas. The distribution reach grew from 2.41 lakh to 5 lakhs in two years.

Valuation

Linc is currently trading at Rs. 703 which is at ~13% discount from its 52-week High of Rs. 810. It currently commands a PE of 25.9x against a 5-Yr Median PE of 33.1x. The company trades at a discount to its industry PE of 38.9x, which indicate huge scope for growth given its strong distribution presence in Indian and global markets, industry tailwinds with rising literacy rates, increasing educational spends and tremendous growth in the education industry.

We are ascribing a **BUY** rating for Linc with a **Target Price of Rs. 908**, translating in an **upside of 29%**.

Risk & Concern

- The company faces a raw material risk as more than 50% of its raw material is a crude derivative, hence, any rise in prices will hamper the costs and affect the margins.
- Seasonality remains to be one of the major risks for the company, with Q4 being the strongest quarter due to inventory buildup for upcoming academic season.
- Another risk which lingers on is of increasing digitization wherein the usage of pens and paper may reduce, but this has been unaffected to the company so far.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

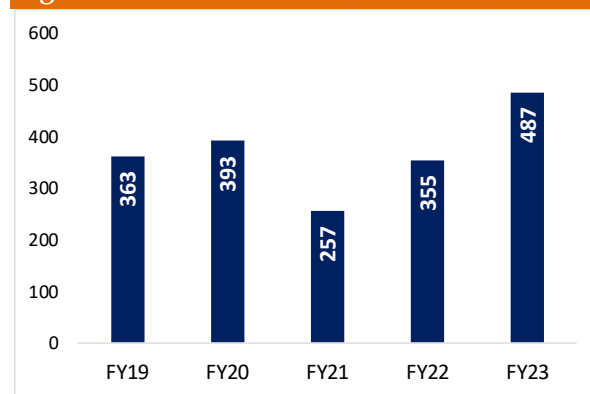


Figure 2: EBITDA & EBITDA Margin Trend

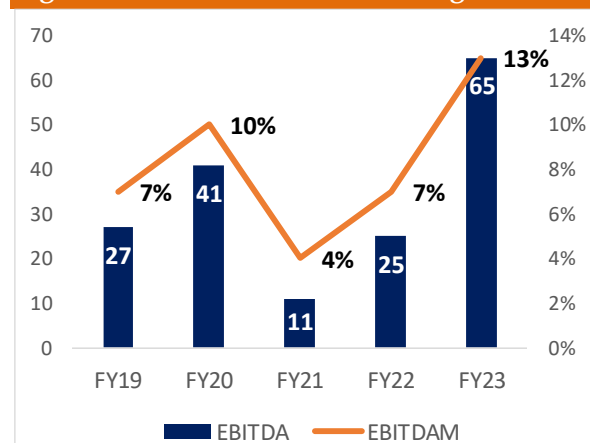


Figure 3: Product Segment-wise Revenue Contribution (FY23)

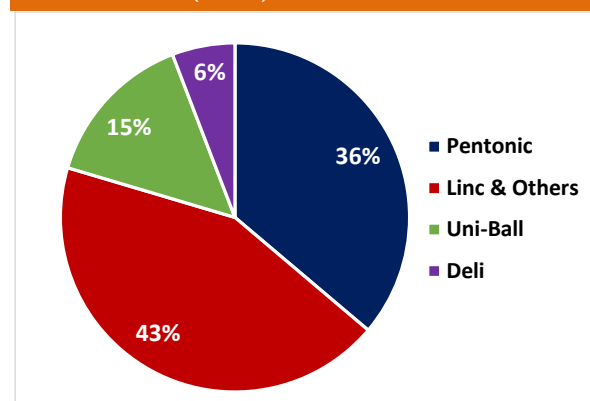
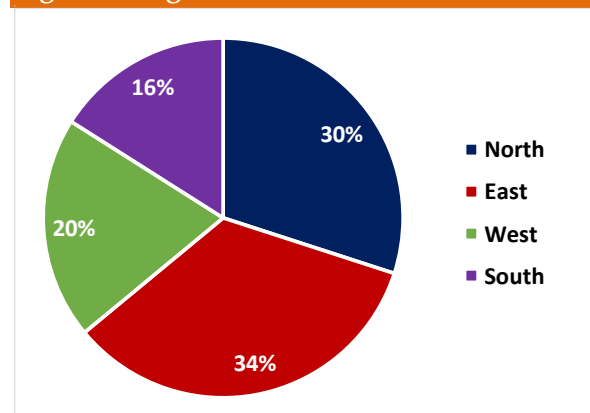


Figure 4: Region-wise Revenue (FY23)



Name
Shreya Hanchate

Designation
Research Analyst

Disclosure: M/s. Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. M/s. Bonanza Portfolio Ltd has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. The Analysts engaged in preparation of this Report or his/her relative: - (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report. The Analysts engaged in preparation of this Report:- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

M/s. Bonanza Portfolio Ltd is a registered Research Analyst under the regulation of SEBI, the year 2014. The Regn No. INH100001666 and research analyst engaged in preparing reports is qualified as per the regulation's provision.

Disclaimer: This research report has been published by M/s. Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of M/s. Bonanza portfolio Ltd shall be liable. Research report may differ between M/s. Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the Subject Company or third party in connection with the research report.

M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

BSE /NSE/MCX : | CASH | DERIVATIVE | CURRENCY DERIVATIVE | COMMODITY SEGMENT |
| CDSL: | 120 33500 | NSDL: | IN 301477 | | PMS: INP 000000985 | AMFI: ARN -0186