Linc Limited

Linc limited is a company in the pens and stationery space. The company was in the lower end pens for a long time and was selling lower priced pens. As a result, the company had 7-10% operating margins from 2011 to 2020.

The company was impacted by GST in 2017-19 period and a slowdown in exports. The increase in polymer prices had a further impact on operating margins. The company introduced the Pentonic brand in 2018 which has been successful.

2019 did not see much progress, but 2020 saw topline growth of 10% and OPM increased to 10% driven by the success of the new brand. However, Covid meant that retail sales dropped and 2021 was a washout. Performance has recovered from 2022 and the main driver was the Pentonic brand which achieved 50 Crs in the last two years.

Industry Overview

The Indian organized writing instruments sector is a thriving market, estimated to be worth around Rs 3,450 crore. The industry comprises seven major players in the organized sector and a sizable unorganized sector accounting for 25% of the total market.

The pen category can also be divided according to sticker prices: up to Rs 5, Rs 10-20 and above Rs 25 (semi-premium and premium). Around 80% of revenues of the Indian pen industry are derived from pens priced below Rs 15 per piece and a small percentage from pens priced between Rs 100 and Rs 300.

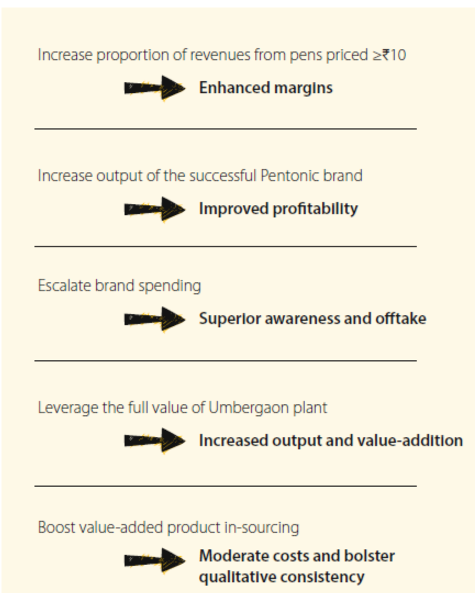
The market for pens below Rs 15 is growing at 7-8% annually whereas the market for pens above Rs 15 is growing at around 8-10% annually. Around 60% of writing instrument consumers are students.

In the mass segment, where the price of the writing instruments is below Rs20, the large players comprise Linc, Cello and Rorito. In the high-value segment, where the price is between Rs 20 and Rs 400, the prominent market players are Uniball, Pilot and Parker. In the premium segment, where the price is above 400, the major market players are Mont Blanc, Parker, Cross, Lamy and Sheaffer.

Business Strategy and Plans

The company introduced the Pentonic brand in 2018, which is a 10 Rs brand, and per management, expected to be the driver of long-term success.

Linc Ltd's management has laid out a series of plans to add shareholder value, including expanding the distribution network, increasing advertising and promotional spending, and focusing on retail pull versus distributor push. The key to the company's success lies in the effective execution of these strategies as shown below, with the Pentonic brand being the keystone behind it.



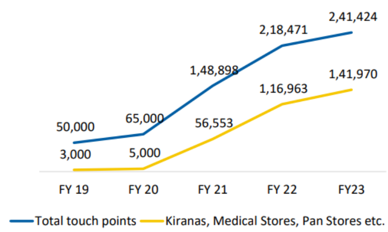
Details of each of the strategy to step up the performance is detailed below -

Expand /deepen distribution.

- The company started focusing on distribution in West and South India where it is weak
- Expand distribution from Stationery stores to kirana, Medical, Pan and other general outlets (went from 0 to 140000 outlets and total outlets increased by 175K)
- Plan is to increase from 65000 outlets to 0.5 Mn outlets.

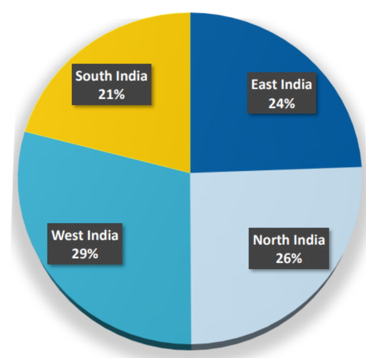
- Increased focus and growth from the e-commerce channel
- Focus on retail pull versus distributor push (selling through 100+ tele callers who work with retailers)

Increased Touch Points…



- India has over 10 Mn non-stationery outlets
- Broken tradition by expanding to neighbourhood grocery stores (Kirana, Medical stores, Pan stores, etc.)
- We have already crossed the milestone of 1 lakh non-stationery outlets
- The company targets to reach 5 lakh touch points by FY 25

Break-up of Region wise Touch Points FY'23



Brand building

- Brand building (now spending 2% on Ad and promotion and will take this to 3%)
- The Pentonic brand is now 30% of total sales.
- Plans to add more products in the Pentonic brand range.

Improving sales and margin

- GPM improved from 22% in FY18 to 31.3% in FY 23 (due to 40% margin of Pentonic range). This is allowing the company to spend on brand building
- Hit 700 Crs by FY25

Expanding portfolio

- The company is expanding beyond pens to other stationery items like highlighters by building on relationship with Uniball and Deli. Plan to Hit 100 Crs with Deli by FY26 by leveraging the same sales and distribution network.
- Doubling capacity at umbergaon plant by investing 50 crs

Financial Overview

The topline of the company has grown by 8% in the last 3 years mainly due to the slowdown from Covid. However, performance has picked up in last 3-4 qtrs. with a growth of 37% at topline and net profit is up 3.5X

Quarterly Results

Figures in Rs. Crores

	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023
Sales +	100	27	65	71	94	55	94	95	111	98	127	125	137
Expenses +	90	29	62	69	87	54	86	89	105	90	111	106	118
Operating Profit	**10**	**-1**	**3**	**2**	**7**	**1**	**8**	**7**	**6**	**8**	**16**	**18**	**20**
OPM %	10%	-5%	5%	3%	7%	2%	8%	7%	5%	8%	12%	15%	14%
Other Income +	1	0	-0	0	1	0	0	0	2	1	1	0	1
Interest	1	1	1	1	0	0	0	0	0	0	0	0	0
Depreciation	3	3	3	3	3	3	3	3	3	3	4	4	4
Profit before tax	**7**	**-5**	**-1**	**-2**	**4**	**-2**	**5**	**4**	**4**	**6**	**13**	**15**	**17**
Tax %	26%	26%	22%	25%	-41%	24%	25%	25%	25%	26%	25%	25%	26%
Net Profit +	**5**	**-4**	**-1**	**-1**	**6**	**-1**	**4**	**3**	**3**	**4**	**10**	**11**	**12**
EPS in Rs	3.35	-2.68	-0.59	-0.86	4.17	-0.82	2.41	1.88	2.01	2.95	6.43	7.48	8.29
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Also, terms of trade is improving with receivables days going down, which shows that the company is achieving retail pull now.

Ratios

Figures in Rs. Crores

	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023
Debtor Days	46	54	50	48	53	42	51	43	40	51	35	29
Inventory Days	118	112	119	110	129	124	130	101	122	132	99	98
Days Payable	49	46	41	37	48	31	46	37	62	81	62	49
Cash Conversion Cycle	**114**	**119**	**127**	**121**	**133**	**135**	**135**	**107**	**101**	**102**	**73**	**78**
Working Capital Days	84	87	91	82	92	102	115	95	86	90	66	55
ROCE %	7%	10%	16%	18%	22%	17%	9%	9%	16%	-1%	8%	31%

Finally, ROC has touched 23% and if the company can improve its gross and operating margins, this should improve further.

Positives

The success of the Pentonic brand, which now accounts for 30% of total sales, indicates strong market demand for Linc's products. The company needs to build on this brand.

Focus on expanding distribution and with plan to touch 5 Mn outlets by FY25. This should increase the retail pull for its products. This will also improve the terms of trade with its channel partners.

Finally, if the company can continue to progress on its brand and distribution, it will further improve gross profit margins (GPM) upwards of 35%. This will provide the necessary resources for brand building which is a virtuous cycle.

Risks

- Intense competition in the writing instruments industry may affect Linc Pens Ltd's market share and profitability.
- Fluctuations in raw material prices, such as polymers, can impact production costs and margins.
- Possible disruptions in export markets could affect the company's revenues and growth prospects.
- A slip in executing the strategy will have the biggest impact on the long-term prospects of the company.

Conclusion

Linc Limited has been a small player in the stationery and paper segment. However, the launch and success of its Pentonic brand has given it a platform for growth and transform itself into a consumer products company.

Management needs to execute on expanding distribution, spend on building the brand and continue product innovation and new product introduction.

If management can execute as per its plans, the company should do well for the foreseeable future.

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