

Gross margins to improve on higher consumable sales

Control Print (CPL) reported revenue de-growth of 31% YoY to ₹ 35 crore. The subdued performance was largely on account of lockdown resulting into poor sales from printers. Better gross margins due to higher sales from consumables led OPM to sustained, which was at 24% against 26.9% in Q1FY20. EBITDA was down 38.5% YoY to ₹ 8.5 crore. Adjusting the fair value of investments, PAT fell 43% YoY to ₹ 5.4 crore.

Higher share from consumables to improve margins ahead

Consumable constitute 65-66% of overall revenue in QFY21 vs. 62% in Q1FY20. The company has overall printer installed base of more than 11000, which helps them to get recurring revenue of at least ₹ 130 crore annually. Apart from this, we also expect revenue from services to also grow in double digit in the years to come, which saw growth at a CAGR of 20% in FY17-20 to ₹ 22 crore. We expect both segments to have better gross margins and thus, inching up share from both of these business verticals should likely to improve gross margins at group level and thereby operating margins.

Strong balance sheet with decent FCF, leads CPL a top bet

CPL has net cash to the tune of ₹ 20 crore as on FY20. In the last few years, with increase in revenue contribution from consumables and service verticals, the company is able to reduce inventory cycle. The inventory days fell from 137 days in FY18 to 118 days in FY20. We expect even 10% reduction in inventory days from present level in the next three to four years could likely to improve FCF by 3% of sales. This could eventually help company to improve dividend payout given that major capex is not lined up for the coming two to three years.

Conference call highlights

(i) The company sold around 250 printers in Q1FY21 (ii) Consumables contributed 65-66% to overall revenues during the quarter followed by spares (25%) and printers (10%). The revenue mix in Q1FY20 remained at 62% for consumables followed by spares of 19% and printers of 19% (iii) More product mix towards consumable increased the gross margins during the quarter (iv) The company is witnessing increase in the sales of newly launched printers (v) Revenue segregation between industrial and packaging & consumers is at 60% & 40%, respectively (vi) The installed base for printers is at ~12000 (vii) The cost per printer is priced at ₹ 1.75 lakh while the price of its consumable is ~₹ 1.5-2 lakh.

Valuation & Outlook

FCF yield is at ~6% currently. We expect a high probability of improvement in operating margins owing to aforementioned factors. Thus, lower WC cycle and better margins can translate into strong cash flows. This should help it to get better valuations ahead. We value the company at 13x FY22E PER and arrive a target price of ₹ 270. We have a **BUY** rating on the stock.

Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenue	145.2	173.9	174.4	194.9	188.0	203.1	2.1%
EBITDA	38.3	50.2	39.8	46.1	46.1	50.8	4.9%
EBITDA margin (%)	26.4	28.9	22.8	23.7	24.5	25.0	
Net Profit	26.1	31.6	29.8	26.7	27.4	34.1	13.0%
EPS (₹)	16.0	19.4	18.3	16.3	16.8	20.9	
P/E (x)	13.5	11.1	11.8	13.2	12.8	10.3	
EV/EBITDA (x)	9.2	6.6	7.9	7.2	6.8	5.9	
RoCE (%)	20.9	24.6	18.9	19.8	18.8	21.1	
ROE (%)	19.0	19.0	13.1	15.0	12.8	13.8	

Source: ICICI Direct Research, Company

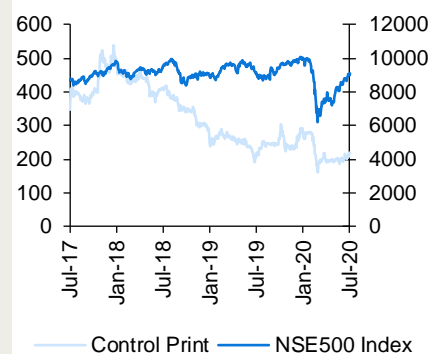


Particulars	Amount
Market Capitalization	351 crore
Total Debt (FY20)	0 crore
Cash and Inv (FY20)	19 crore
EV	331 crore
52 week H/L	318/145
Equity Capital	16.3
Face Value	10

Key Highlights

- Higher share from consumables to improve margins ahead
- Strong balance sheet with decent FCF, makes CPL a top bet
- Maintain BUY rating with target price of ₹ 270

Price Performance



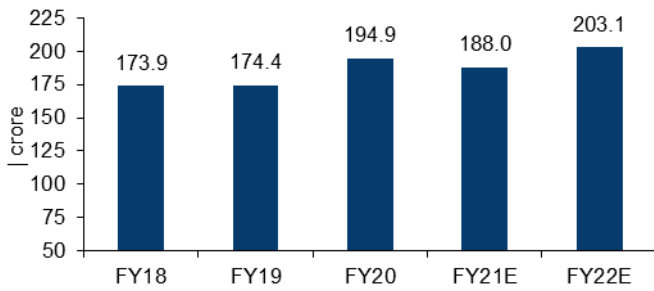
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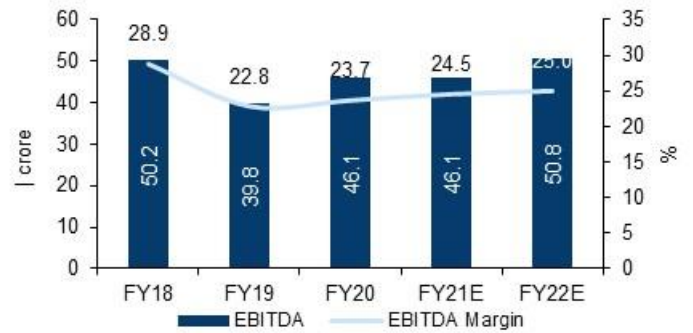
Story in Charts

Exhibit 1: Net sales trend (₹ Crore)



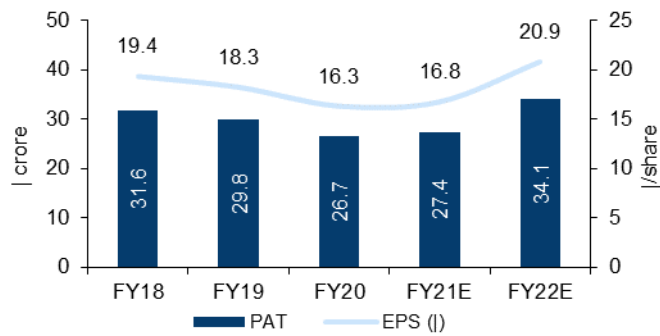
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA and EBITDA margin trend



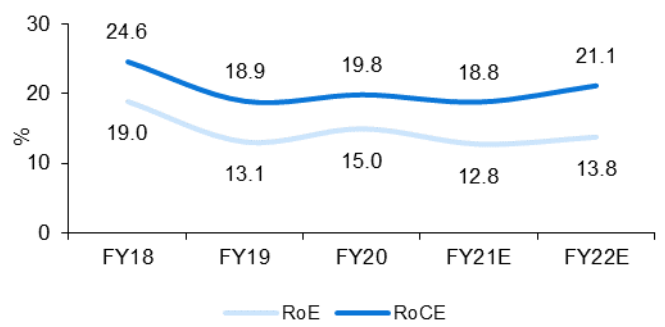
Source: Company, ICICI Direct Research

Exhibit 3: PAT and EPS trend



Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement (₹ Crore)					
(Year-end March)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	173.9	174.4	194.9	188.0	203.1
Other Operating Income	0.0	0.0	0.0	0.0	0.0
Total Operating Income	173.9	174.4	194.9	188.0	203.1
Growth (%)	18.0	0.3	11.8	-3.6	8.0
Raw Material Expenses	55.3	61.4	73.1	66.5	76.2
Employee Expenses	33.0	38.5	40.8	42.4	40.6
Other Operating Expense	35.5	34.8	34.9	32.9	35.6
Total Operating Expenditur	123.7	134.6	148.8	141.8	152.3
EBITDA	50.2	39.8	46.1	46.1	50.8
Growth (%)	31.2	-20.8	15.9	0.1	10.0
Depreciation	6.9	7.4	9.0	9.5	10.1
Interest	1.3	0.3	0.9	0.9	0.9
Other Income	0.4	0.8	1.1	1.3	2.8
PBT	42.5	32.9	37.4	37.1	42.6
Exceptional Item	3.9	-4.5	4.3	2.1	0.0
Total Tax	6.9	7.6	6.4	7.6	8.5
PAT	31.6	29.8	26.7	27.4	34.1
Growth (%)	21.3	-5.7	-10.6	2.6	24.4
EPS (₹)	19.4	18.3	16.3	16.8	20.9

Source: Company, ICICI Direct Research

Exhibit 6: Cash Flow Statement					
(Year-end March)	FY18	FY19	FY20	FY21E	FY22E
Profit after Tax	31.6	29.8	26.7	27.4	34.1
Add: Depreciation	6.9	7.4	9.0	9.5	10.1
(Inc)/dec in Current Assets	-21.2	1.1	-4.0	-9.9	-6.9
Inc/(dec) in C/L and Provision	-0.2	0.2	-0.7	1.2	3.2
Others	1.3	0.3	0.9	0.9	0.9
CF from operating activities	18.4	38.8	31.9	29.0	41.3
(Inc)/dec in Investments	-4.2	-17.3	19.4	0.0	0.0
(Inc)/dec in Fixed Assets	-9.9	-11.4	-21.6	-10.0	-10.0
Others	-0.9	1.6	0.4	0.0	0.0
CF from investing activities	-15.0	-27.1	-1.8	-10.0	-10.0
Issue/(Buy back) of Equity	0.7	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-14.7	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-12.7	-12.7	-14.7	-14.7	-14.7
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	0.0
Others	25.9	-0.5	-12.6	13.1	-0.9
CF from financing activities	-0.9	-13.2	-27.3	-1.6	-15.6
Net Cash flow	2.5	-1.5	2.8	17.4	15.8
Opening Cash	1.2	3.7	2.2	4.9	22.3
Closing Cash	3.7	2.2	4.9	22.3	38.1

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					
(Year-end March)	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Capital	16.3	16.3	16.3	16.3	16.3
Reserve and Surplus	167.5	184.4	184.6	211.3	230.6
Total Shareholders funds	183.9	200.7	201.0	227.6	247.0
Total Debt	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	13.0	10.4	10.6	10.6	10.6
Minority Interest/ Others	1.0	0.0	0.0	0.0	0.0
Total Liabilities	197.8	211.2	211.5	238.2	257.5
Assets					
Gross Block	114.0	127.2	144.7	158.4	168.4
Less: Acc Depreciation	33.7	41.4	50.6	60.1	70.2
Net Block	80.3	85.9	94.1	98.3	98.2
Capital WIP	2.9	1.4	5.7	2.0	2.0
Total Fixed Assets	83.3	87.3	99.8	100.3	100.2
Liquid Investments	16.2	33.4	14.0	14.0	14.0
Other Investments	5.5	0.0	0.0	0.0	0.0
Inventory	65.5	61.8	63.2	65.9	66.8
Debtors	42.4	47.0	49.7	48.9	52.9
Loans and Advances	15.5	11.1	10.3	18.8	20.3
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Cash	3.7	2.2	4.9	22.3	38.1
Total Current Assets	127.1	122.1	128.1	156.0	178.0
Creditors	23.8	22.4	23.5	25.7	27.8
Provisions	11.4	11.0	11.2	10.3	11.1
Current Liabilities & Prov	35.2	27.5	30.9	32.3	34.9
Net Current Assets	91.9	94.6	97.3	123.7	143.2
Others Assets	0.0	0.0	0.0	0.0	0.0
Application of Funds	197.8	211.2	211.5	238.2	257.5

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios					
(Year-end March)	FY18	FY19	FY20	FY21E	FY22E
Per share data (₹)					
EPS	19.4	18.3	16.3	16.8	20.9
Cash EPS	23.6	22.8	21.9	22.6	27.0
BV	112.6	122.9	123.1	139.4	151.2
DPS	6.5	6.5	7.5	7.5	7.5
Cash Per Share (Incl Invst)	2.3	1.3	3.0	13.7	23.3
Operating Ratios (%)					
EBITDA Margin	28.9	22.8	23.7	24.5	25.0
PBT / Total Op. income	24.4	18.9	19.2	19.7	21.0
PAT Margin	18.2	17.1	13.7	14.6	16.8
Inventory days	137	129	118	128	120
Debtor days	89	98	93	95	95
Creditor days	50	47	44	50	50
Return Ratios (%)					
RoE	19.0	13.1	15.0	12.8	13.8
RoCE	24.6	18.9	19.8	18.8	21.1
RoIC	24.2	18.0	19.5	18.0	19.6
Valuation Ratios (x)					
P/E	11.1	11.8	13.2	12.8	10.3
EV / EBITDA	6.6	7.9	7.2	6.8	5.9
EV / Net Sales	1.9	1.8	1.7	1.7	1.5
Market Cap / Sales	2.0	2.0	1.8	1.9	1.7
Price to Book Value	1.8	1.7	1.7	1.5	1.4
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	3.6	3.8	3.8	3.9	3.8
Quick Ratio	1.8	2.0	2.0	2.1	2.1

Source: Company, ICICI Direct Research

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