LINK PENS AND PLASTICS LIMITED

LINC
Think it. Linc it.

A One-Stop Window for Complete Writing Solution

Linc Pen and Plastics Ltd. ("the Company" or "LPPL") is one of India's most trusted writing instrument manufacturers with a national and international presence in over 50 countries. LPPL commands a market share of 10-11% in the Indian pen industry. LPPL boasts of a strong and extensive network in South East Asia, the Middle East, USA, UK, Europe, South America, Africa, Russia and the 12 members of the Commonwealth of Independent States (CIS) countries. LPPL is the exclusive importer and distributor of world-famous brands: Uni-ball, Mitsubishi Pencil Co. Japan and Deli, the industry behemoth based in Ningbo Zhejiang, China. The flagship brands include:

uni MITSUBISHI PENCIL

deli

Bensia non-sharpening Pencils

MARKLINE

pentonic

How was LPPL born?

Born in 1938 at Lachhman Garhin Sikhar district in Rajasthan, Shri Surajmal Jalan had a very normal childhood. At the age of 19, he came to Kolkata to earn a living. However, there was constant pressure from his family to come back. In 1966, he went back to his village, where he started selling pens.

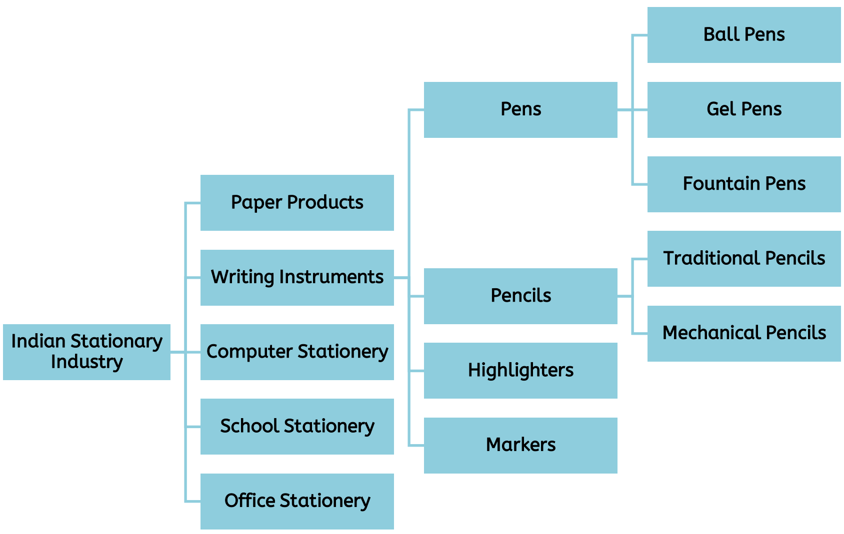

Surajmal Jalan, Founder of LPPL

He bought pens with just an initial investment of Rs.5,000 that he had saved from his job. He began going door-to-door to sell pens. Soon, he realized that his dream of making it big in the industry would not be achieved in his hometown and after two years, he decided to go back to Kolkata. In 1976, Surajmal Jalan started Linc Pen & Plastics from a rented house in Kolkata. He named the Company "Linc" which means "to connect". The Company began to grow and flourish under the able leadership of Mr. Jalan when his elder son Deepak Jalan joined LPPL as a sales trainee in 1980. As the legal heir, Deepak soon took charge of the Company. Under Deepak's leadership and hard work, the Company has grown by leaps and bounds, now having a market cap of more than Rs.2.65 billion (as cited by Bombay Stock Exchange).

Writing Instrument Industry

- The Global writing and marking instrument market was estimated at $16.99 billion in 2018 and is projected to increase to $23.98 billion by 2025, growing at a CAGR of 5.1% between 2018 and 2025.
- The Asia Pacific region was the most significant contributor to the Global stationery industry, accounting for a revenue share of 34% in 2018. India is one of the largest markets in the Asia Pacific and is expected to expand at a CAGR of 6.2% between 2019 and 2025.
- The education sector is one of the biggest consumers of the Indian stationery industry. India prides on the fact that it has one of the largest education systems in the world with 1.5 million schools, 935 universities and 39,931 colleges.
- The Government of India allowed 100% foreign direct investment (FDI) through the automatic route to promote the education sector in India. The FDI inflow into the education sector was $1.75 billion between April 2000 and June 2018.
- Producers in the industry can target tech-savvy consumers to boost their sales and profit in this competitive industry. With the increasing penetration of digitization, the core writing instrument market may have to face turbulent waters hindering its growth forecast.

Indian Stationary Industry



Source: Company, Leveraged Growth

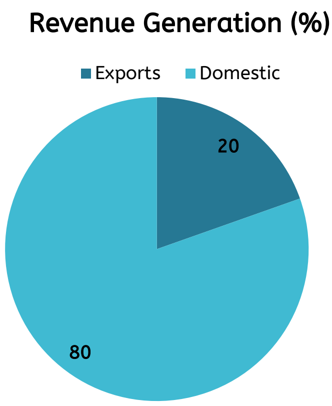
Business Model

Over the past three decades, “Linc” has emerged as a household name when it comes to pens and stationery products. The Company is among the top three leading brands in India’s writing instruments industry. LPPL has a Pan-India dominance sprawling across 29 States. It boasts of a formidable distribution network of over 2,555 dealers leading to more than 65,000 retailers.

The Company reported around 19.6% of its revenues from exports in FY20. One-third of LPPL revenue comes from export.

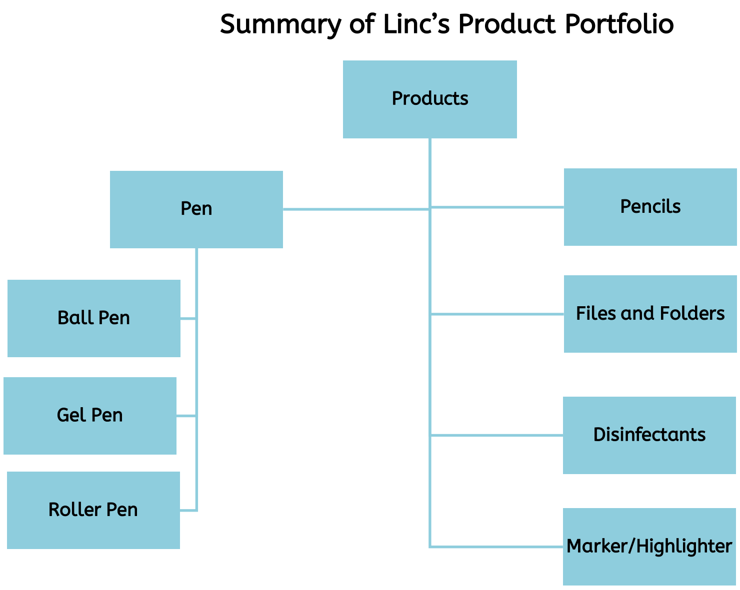
The Company has its manufacturing units in Umbergaon (Gujrat), Falta (SEZ) and Serakole (West Bengal). The Falta and Serakole units enable LPPL to address the growing demand in Northern and

Eastern India, while the Umbergaon unit addresses the growing demand for writing instruments in Southern and Western India. LPPL manufactures around 1.25 crore pens in Umbergaon and more than 2 million units from their manufacturing plants in Serakol and Falta.



Source: Company, Leveraged Growth

Different Types of Products



Source: Company, Leveraged Growth

LPPL launched its flagship brand, "Pentonic" in 2019. Pentonic has changed the dimensions of India's writing instruments sector. There was a growing tendency that only cheap products would sell well to public in India. Pentonic has proved this to be absolutely incorrect. There was a feeling that a pen broadly comprises the usual complements like a metal clip, laminate layer, etc. However, Pentonic has proved that a pen even with minimalistic features, can be priced better. The result is that Pentonic has not only contributed attractively to the numbers of LPPL, but it has revitalised the entire sector with better hope and confidence. It has also given supreme edge to LPPL products over its competitors. LPPL successfully launched a Pentonic brand extension called “Pentonic V-RT”, a retractable pen priced at Rs. 20 in FY20.

Pentonic V-RT

Product Launched in FY20

Pentonic V-RT Rs. 20	Permanent Marker Rs. 20	White Board Marker Rs. 25	CD Marker Rs. 10	Pentonic Pencil Rs. 10

Impact of COVID-19

Along with trade and manufacturing restrictions across the world due to the ongoing COVID-19 pandemic, demand has also been affected for most non-essential markets. The pandemic has even left its mark on the writing instruments industry including LPPL. However, due to the nation-wide lockdown imposed on the 23rd of March 2020 this could not happen in Q4FY20. The Company’s manufacturing facilities were shut from late March 2020 due to the lockdown following the outbreak of the COVID-19 pandemic which resulted in a national loss of sales of about Rs. 15 crore. The Company’s production resumed partially on the 22nd April, 2020 in Falta and Serakole and 20th May, 2020 in Umbergaon, which negatively impacted the results of the Q1FY21. The 4x expansion plan was supposed to be rolled out by the end of FY21. LPPL brilliantly leveraged the lockdown opportunity to impart training to its sales team and initiated the rollout of the expansion immediately after resuming operations after lockdown. The Company took various initiatives for its stakeholders like assisting the trade partners by extending the credit cycle etc. During the course of the pandemic, the Company forayed into Portugal in Q1FY21 and has plans to expand its operations in the United States of America. It also deferred its manpower costs and moderated other costs to strengthen its cash management. As safety trumps all else in today’s world, Linc has risen to the need of the hour with its latest creation – the Pentonic Covid-19 Killer: The finger-free touch device to keep everyone safe.

Differentiating Strategies

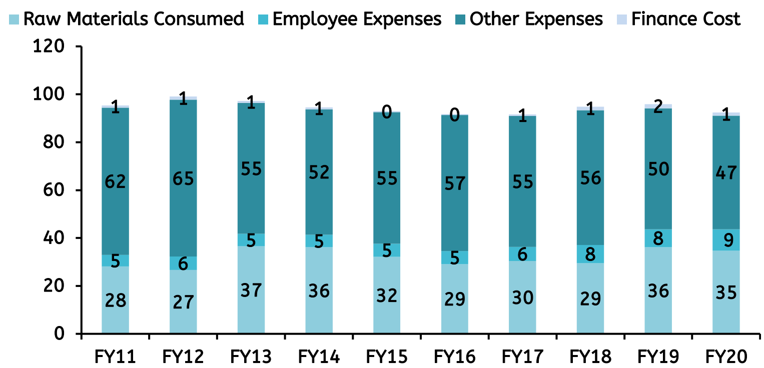
1. Strategic Locations and Established Network

LPPL has a Pan-India dominance sprawling across 29 States. It boasts of a formidable distribution network of over 2,555 dealers leading to more than 65,000 retailers. Globally the Company is present in more than 50 countries. LPPL leverages its cutting-edge technology coupled with strategic tie-ups with international designers to produce unique and superior quality writing instruments. The strategic alliances with global stationery industry leaders enables the Company to expand its global footprint and enhance its brand viability. During the last few years, the Company widened its distribution footprint, enhanced wallet share per distributor and provided a superior after-sales service.

2. Cost Leadership

LPPL has taken substantial measures to cut-down costs thereby widening the margins. The Company has taken initiatives to source materials from new suppliers, improve efficiency of its Serakole plant, and has also started reducing outsourcing activities. This entire process has significantly contributed to reduce the cost structure of the enterprise as a whole.

Cost as a % of Total Revenue



Source: Company, Leveraged Growth

3. Strategic Tie-ups

LPPL has contract with Mitsubishi for distribution of Mitsubishi's Uni Ball brand in India. The Company has entered into business strengthening alliance with 'Deli', one of the largest stationary manufacturers in China. Having strategic tie-up with global players helps the Company to develop unique product designs.

SWOT Analysis

Strengths

1. **Brand:** LPPL has a strong hand when it comes to brand building as the Company has a sustained spending on brand building which has enhanced visibility and unaided recall.
2. **High-capacity utilisation:** LPPL successfully achieved a 90% capacity utilisation in FY20 compared to 85% in FY19. Higher capacity utilisation by the Company not only improves the usage of its resources but it also shows that the Company's products have higher demand in the market.
3. **Strategic Location:** The Company's strategic plant locations enable adequate raw material access, skilled manpower and port proximity. The Company's products are available across more than 50,000 direct touch points and 20,000 indirect touch points, thus serving as a primary growth driver for LPPL. The extensive distribution network built by LPPL over the years has enabled the Company to tackle the thin margin and pricing pressures posed by its competitors.

Weaknesses

1. **Skilled Manpower:** LPPL faced an acute shortage in the recruitment of skilled labour force. The Company tried to resolve this through on-the-job training programmes and second line succession planning.
2. **Employee Absenteeism:** The Company faces frequent problem of absenteeism among contracted labourers in the Umbergaon facility.

Opportunities

1. **Demographic Mix:** India is a young Country with over 310 million students (1.7% YoY growth) which is almost the population size of the entire United States of America. 66% of the Indian population are under the age of 35 in FY20. According to the Bloomberg, India is on a path to have the world's largest active manpower by 2027, with more than 1 billion people aged between 15 and 64. A young Country like India is likely to be the highest consumer of writing instruments. India's positive demographic mix is one of the biggest demand drivers for the industry.
2. **Educational Spending:** The Union Budget FY20 allocated Rs.94,853 crore for education, a YoY increase of ~Rs.10,000 crore. This in turn serves as a great opportunity for LPPL to capitalise on.
3. **Rural Market:** The rural population of India accounts for 66.86%, that provides a large untapped market with potential for sustained growth. Various Government initiatives like Mid-Day Meal, Skill India, Rashtriya Madhyamik Shiksha Abhiyan, Eklavya schools will boost the literacy rate thereby contributing to heavy potential demand for stationary products in the future.
4. **Increased Literacy:** The demand for writing instruments and stationery of the Country has been constantly increasing, against the backdrop of improving economic condition of the Country clubbed with the rise in literacy rate. India's literacy rate from 65% in 2001 to 74% in 2011 to ~78% in 2018.

Threats

1. **Growing Digitalisation**: With increasing penetration of digitisation, the core writing instrument market is not growing globally with growth limited to around 10% in the domestic market, the size of which is pegged at ~Rs.44 billion (FY20).

2. **Political Instability:** Trade restrictions and social unrest across five countries (Egypt, Turkey, Iran, Yemen and Syria) adversely has adversely impacted LPPL revenue-earning potential in past. Exports were declined by almost Rs.25 crores in FY 2018 due to imposition of tariff barrier by Egypt and Turkey.
3. **Debt Financing:** LPPL took a term loan for the expansion of the 'Pentonic' capacity in 2019, calling for repayment responsibility during the COVID-19 pandemic.

Michael Porter's 5-Forces Analysis

Barriers to Entry

- The barriers to entry is low which can be observed by the unorganised sector having dominant market share as compared to organised players. Since it comes under category of Small and Medium Enterprises, a lot of incentives has been provided by govt to boost this sector.

Bargaining Power of Suppliers

- Crude based raw material are almost 40% of the total raw materials. Since these suppliers are less in number, they have high bargaining power due to which the companies in this sector have to generally absorb the price rise.
- The raw materials supplied by the suppliers of LPPL are homogeneous in nature. This opens up horizon of channels for LPPL to procure materials from its suppliers reducing its dependency on a single source of supply. Thus, suppliers of LPPL do not enjoy much bargaining power.

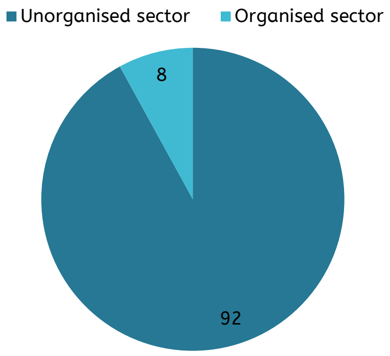
Bargaining Power of Buyers

- Operating in a highly competitive and volatile business environment, there are plenty of substitutes of the products offered. This makes the demand highly elastic making any single firm unable to hike price and boost its profitability. Thus the bargaining power of buyers is high.

Rivalry among Competitors

- Companies in the writing instrument industry are 'price takers'. A single company cannot manipulate the market prices due to intense competition. Thus the rivalry among customers is high.

Unorganised vs Organised Sector of the Industry (%)



Source: Company, Leveraged Growth

Threat of Substitutes

- The industry is highly fragmented. A wide range of substitutes are available for the consumers. With Covid pandemic giving boost to digital ecosystem, the demand for stationary products is expected to decline.

Branding & Other Initiatives

1. Industry Bellwether

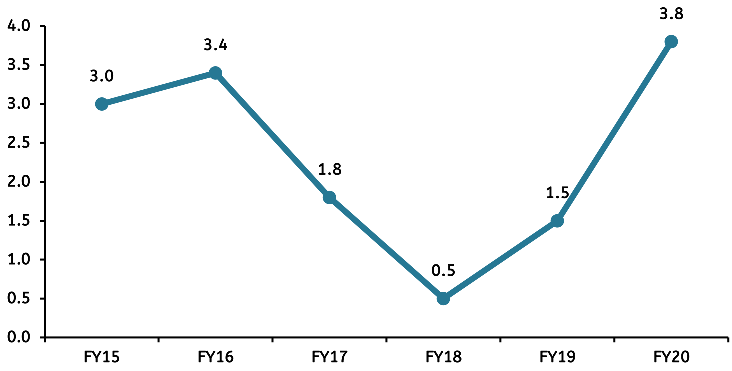
Company's brand has reinstated presence across four decades. LPPL's 'Pentonic' brand turned into a Rs.50 crore power brand in 2 years, fastest by any Linc brand. The Company's recall has been reinforced by its pioneering position, ability to launch differentiated products, create new price slots, engage celebrities as brand ambassadors and enhance association with prominent national events.

Image: Linc Refillable Ball Point Pen

2. Branding and Promotion

A track record of innovation translated into stronger offtake and sectoral leadership. LPPL conducted sales training programme in Kenya, Bangladesh and Cambodia. The Company also enhanced brand awareness in Brazil, Kenya, Germany and Dubai. LPPL also extended its foray into markets like Kazakhstan and South Africa while organising exhibitions in the US. The Company focused on shop signage (visual graphics placed in shop that displays your products) and in-shop branding (sales promotion at retailer's location) in Myanmar, Russia, Africa and South East Asia during FY20. In order to further extend its rural outreach, the Company participated in 'haats' and 'melas' through kiosks, enhancing brand awareness among rural retailers and consumers. It also launched the Pentonic gel in Myanmar, Russia, Eastern Europe and USA and Pentonic V-RT in Eastern Europe and Myanmar in FY20. The promotions were largely built around extended writing length, writing smoothness, ink colour and a superior price-value proposition. In FY20, the Company launched a radio and print campaign called 'Pen nahi, Pentonic bolne ka'. Since FY2018, branding expense as % of revenue has increased as the company has started promoting Pentonic aggressively.

Branding Expenses (% of total revenue)



Source: Company, Leveraged Growth

Image: Linc's 'Pentonic' banner advertisement

3. Focus on Education

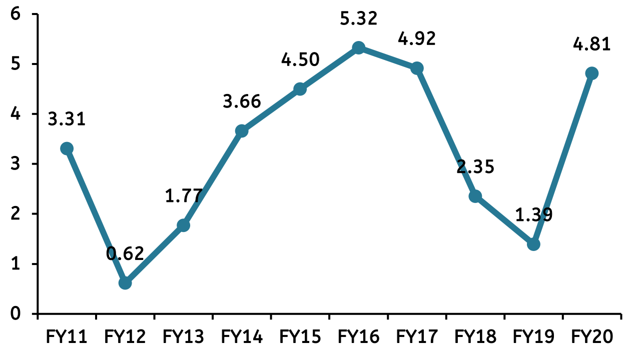
The Company understands the importance of education being in stationary industry. Thus, Company spends a major portion of the required CSR expense (Rs.25 Lakhs out of Rs.35 Lakhs in FY20) on promoting education and providing vocational training.

Financial Analysis

1. Profitability

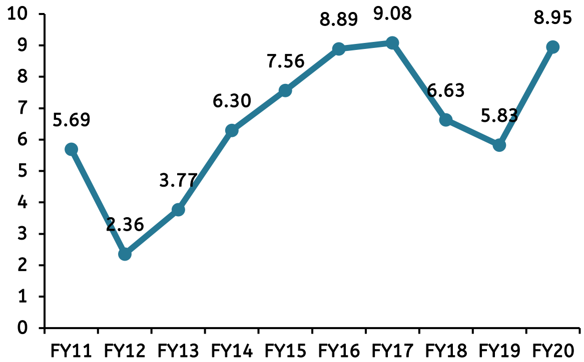
The Company's net profit margin has been in single digits due to high competition. Raw material cost, specifically crude oil has significant impact on the bottom line as During FY12 and FY19, the Company had reported a sharp decline in profits due to spike in raw material cost. Also increase in exercise duty hike impacted the operating margin of the Company. The margins have improved in FY20 as the share of revenue from the pens priced Rs.10 and above, has increased from 33% (FY19) to 50%.

Net Profit Margin (%)



Source: Company, Leveraged Growth

EBITDA Margin (%)

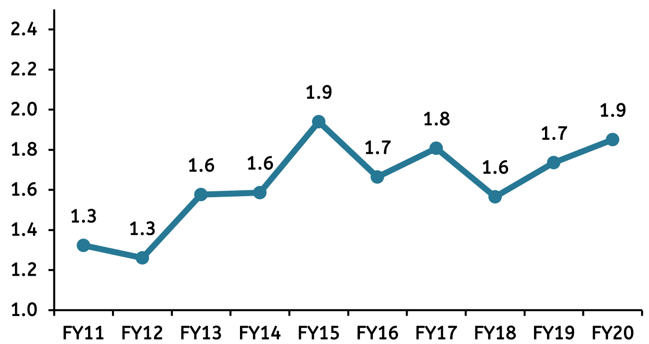


Source: Company, Leveraged Growth

2. Working Capital Efficiency

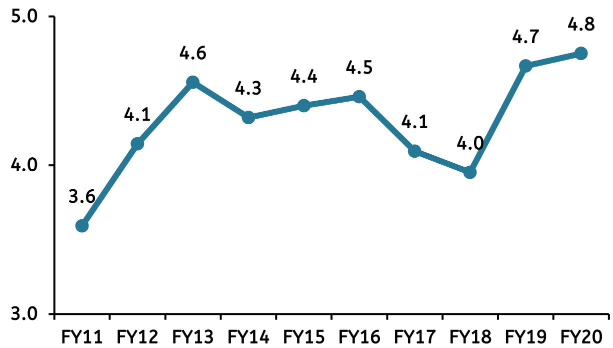
LPPL is successfully churning its product mix: 20 slow moving products have been replaced with a greater investment in backing winners. LPPL believes that this will strengthen the Company's working capital efficiency. Moreover, LPPL saw a drastic fall in its inventory holding days from 86 days in FY18 to 70 days in FY19. With fast-moving products falling into place the inventory turnover ratio is bound to show improvement. Moreover, the combination of push-based and pull-based sales has helped the Company to moderate its inventories. When it comes to **Push** Marketing, the view of promotion is to push your product on to the consumer, as the consumer is not actively seeking your product, whereas Pull Marketing is associated with consumers actively seeking your product, in response to direct demand.

Current Ratio (x)



Source: Company, Leveraged Growth

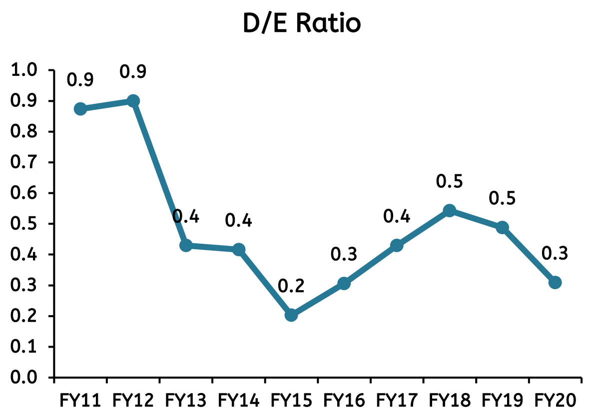
Inventory Turnover Ratio (x)



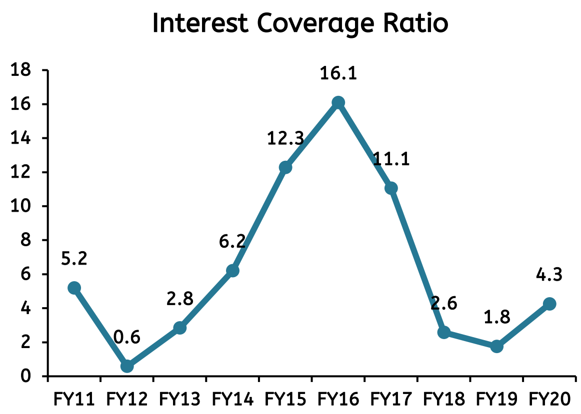
Source: Company, Leveraged Growth

3. Debt Realisation

The Company has an installed production capacity of around 12.5 million pens per month in Umbergaon, which is expected to increase by atleast 50% during the FY20. LPPL expects to report benefits arising from the expansion from the second half of the financial year. The Rs.140 million expansions were funded through accruals and debt. This is expected to moderate the Company's dependence on outsourcing from 55% to 45% as LPPL itself manufactures at higher efficiencies on the one hand and generate superior procurement efficiencies on the other. LPPL even pre-paid over 50% of the instalments falling due in FY21 in February – March 2020, strengthening its liquidity during the pandemic outbreak. As a result, the debt financing ability of the Company has improved in recent years due to the conversion of debt into revenue.



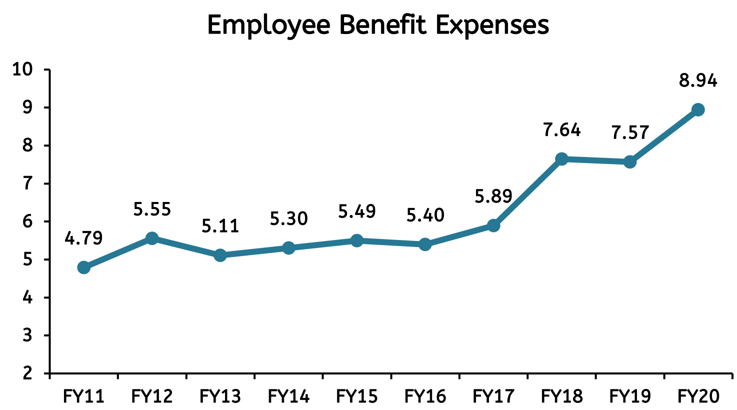
Source: Company, Leveraged Growth



Source: Company, Leveraged Growth

4. Labour Cost rising in an Age of Digitalisation

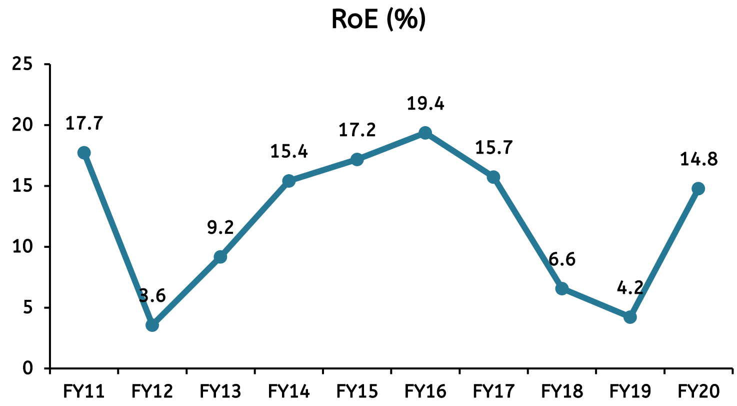
LPPL derives ~75% of its sales from the domestic market and the rest ~25% of sales from exports. With increasing penetration of digitisation, the core writing instrument market is not growing globally with growth limited to ~10% in the domestic market, the size of which is pegged at ~Rs.41 billion(FY17). However, employee benefit expenses and labour union seems to be taking a toll on the Company's financial health.



Source: Company, Leveraged Growth

5. RoE

The corporate governance of LPPL can be reflected in terms of its ROE. The Company boasts a formidable ROE for over more than 10 years with returns being in double-digits, shows the financial health of LPPL. Due to the nature of the industry in which LPPL is operating, it remains resistant to various economic downturns and shocks thereby serving as a secure investment for its stakeholders. The growth trajectory of the Company has been phenomenal with policies rightly executed and targets duly met.



Source: Company, Leveraged Growth

Risk Analysis

1. **Economic Risk:** De-growth or sluggish sectors in the economy which are major demand driver for LPPL could hamper the Company's financial numbers.
2. **Competition Risk:** Intense competition from organised and unorganised players may affect the Company's market share. To mitigate this risk, LPPL has differentiated itself from its peers with innovative and quality products. On the back of Pentonic, the Company successfully migrated its customers to a higher price point during the year under review.
3. **Raw Material Risks:** Fluctuation in crude oil prices have a significant impact on the raw material costs as the share of raw materials which are crude-based is estimated to be 40% of the total raw materialsof the Company. The Company has focussed on developing the products that can insulate the Company by providing a cushion to absorb crude oil induced price fluctuations.
4. **Liquidity Risk:** A liquidity crunch could adversely affect LPPL and create difficulty for the Company to unwind its positions in the market.
5. **Quality Risk:** Inability to service its customers with high-quality products can adversely affect demand.

Corporate Governance

1. The Company's Board comprises of 7 members out of which 3 are Executive Directors/Promoters and the remaining 4 are Non-Executive Directors including 1 Women Director.

Name of the Director	Category	No. of Other Directorship
Shri Deepak Jalan	Promoter, Executive	1
Shri Aloke Jalan	Promoter, Executive	Nil

Shri Rohit Deepak Jalan	Promoter, Executive	Nil
Shri Naresh Pachasia	Independent, Non- Executive	3
Shri Anil Kochar	Independent, Non- Executive	1
Shri Sanjay Agarwal	Independent, Non- Executive	1
Ms. Supriya Newar	Independent, Non- Executive	Nil

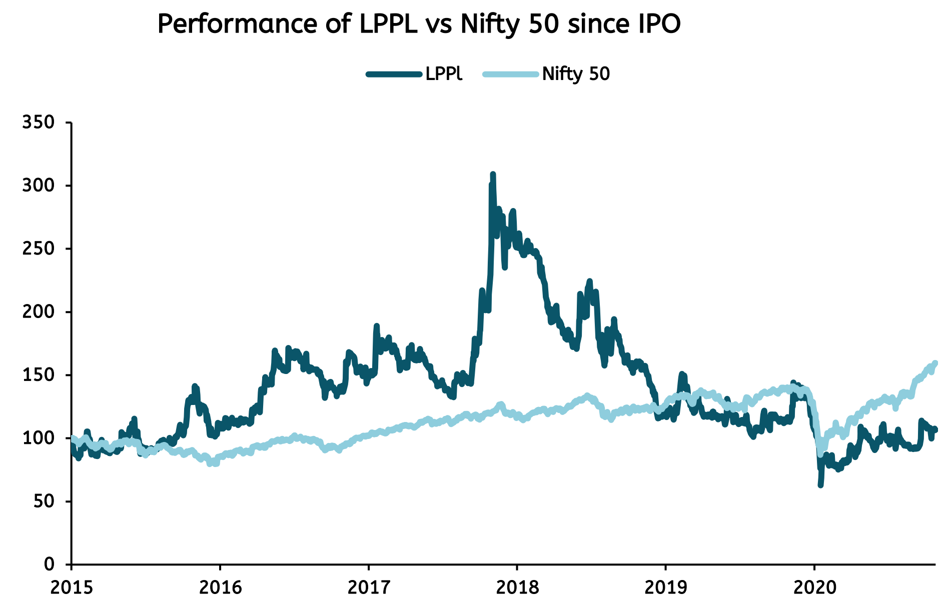
There is no permanent Chairman in the Board. None of the Independent Directors of LPPL serve as an Independent Director in more than seven listed companies. Not a single directors is a member of more than 10 Committees or Chairman of more than 5 Committees across all Companies.

2. For FY20 (ending on March 31,2020), 5 Board Meetings were held on 28th May, 2019, 6th August, 2019, 6th November, 2019, 7th February, 2020 and 7th March, 2020. The meeting held on 7th March, 2020 was for the Independent Directors, without the attendance of the Non-Independent Directors and members of management.
3. Pursuant to the provisions of the Companies Act, 2013 and Regulation 17 of the Listing Regulations, the Board has carried out the performance evaluation of its own performance and that of its Committees as well as a fair evaluation of the performance of its Directors on an individual basis.
4. The Company has a familiarization programme for Independent Directors with regard to their roles, rights, responsibilities in the Company, nature of the industry in which the Company operates, the business models of the Company etc. and the same has been posted on LPPL's website at www.lincpen.com.

Image: Linc's 'Pentonic' Pen

The End-Note

- The biggest consumer of the Indian stationery industry is the educational sector, one of the largest education systems in the world with 1.53 million schools and more than 315 million students. Such massive educational system implies that at a literacy rate of 79% there is immense scope for the LPPL to grow and flourish.
- The demand for Linc's products is also driven by the industry's penetration into the rural areas and rising awareness among people about the importance of literacy in the Country.
- Through various centrally sponsored schemes and core schemes, the Central government of India has continued its efforts to increase the penetration of educational services in all segments of the population thereby improving the quality of programme delivered, enhancing the infrastructure of the industry. Thus the possibility of LPPL encountering red-tape or any other legal barrier is very minimal.
- Being in sync with government and environmental initiatives and given the nature of the industry, LPPL has an upper hand when it comes to slow-downs/shocks in the economy as these markets remain unaffected due to their necessity, affordability and brand loyalty.


Performance of LPPL vs Nifty 50 since IPO
LPPL
Nifty 50
350
300
250
200
150
100
50
0
2015
2016
2017
2018
2019
2020

Source: NSE

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