

Q1FY25 Result Webinar

of



Linc Limited

on Tuesday, August 13, 2024

Mr. Deepak Jalan, Managing Director

Mr. Rohit Jalan, Whole-time Director

Mr. N.K. Dujari, Director Finance & CFO

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- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**

- Good day, ladies and gentlemen. It's been a pleasure to welcome you on behalf of Linc Limited and SKP Securities to Linc Limited's Q1FY25 Result Webinar. We have with us Mr. Deepak Jalan - Managing Director, Mr. Rohit Jalan – Whole-time Director, Mr. N. K Dujari -Director Finance & CFO and Mr. Sanjeev Sancheti from Uirtus Advisors LLP, IR Advisors to the company.
- This webinar is being recorded for compliance reasons and during the course of the discussion there may be certain forward looking statements. These, must be viewed in conjunction with the risk of the company faces.
- We'll have the opening remarks from Mr. Jalan followed by Q&A session. Thank you and over to you, Deepak ji.

- **Mr. Deepak Jalan - Managing Director, Linc Limited:**

- Good afternoon, everyone, and welcome to the Linc Limited Investor Call for the first quarter of FY25. We truly appreciate your participation today. In Q1FY25 Linc Limited delivered a quarterly revenue of ₹13011 lakhs marking a robust 16.3% year-on-year growth. We are particularly pleased with the performance of our Pentonic Line, which recorded an impressive 28.6% year-on-year revenue growth contributing a significant 39.6% to Linc's top line. This underscores the strong brand equity and growing market acceptance of our Pentonic range.
- While the overall revenue growth has been strong, we have observed some sluggishness in the general trade segment. However, this slowdown is consistent with broader market trends and is anticipated to be short-lived with the recovery expected in the coming quarters.
- Our quarterly Gross Profit margin stood at 31.2% reflecting 108 basis points decline year-on-year primarily due to the elevated cost of polymer, our primary raw material. Despite this, we remain focused on optimizing our cost structures and maintaining healthy margins.
- On the export front, we are excited to report a significant uptick in performance with export and overseas revenue surging by 26.3% year over year in Q1FY25. This has increased the share of export sales in our top line to 18% in this quarter, up from 16.9% in the previous year. This positive trend highlights the vast potential that exists in the global market, which is estimated at approximately \$20 billion. Although our current market share is modest, we view this as a substantial growth opportunity and we are committed to expanding our international presence.
- We are mindful of the challenges that come with entering and expanding in international markets including foreign exchange fluctuations, tariff barriers and geopolitical instability. However, with our strong foundation and strategic approach, we are confident in our ability to navigate these challenges and drive sustained growth in our export business.
- Innovation remains at the core of our strategy and we are proud to introduce the Pentonic 75, our latest product made from 75% recycled materials. This innovative plan not only reflects our unwavering commitment to sustainability but also positions us as a pioneer in achieving 75% circularity in the industry. Each Pentonic 75 embodies a recycling value of approximately ₹1.25 setting a new benchmark in our sustainability journey.
- Further to our premiumization strategy, we recently launched Pentonic Pens prized at ₹30 and ₹40, which have been very well received by our customers. We are in the process of rolling these products out nationwide and we anticipate that this will positively impact our average selling price over the next few quarters.

- Additionally, we are developing new variants of Pentonic ball pens and gel pens at a ₹10 price point, the fastest growing segment in the market. These upcoming launches will not only enhance our Pentonic portfolio but also enable us to capture a larger share of this critical market segment.
- Our strategic partnership with Deli has been instrumental in expanding our product portfolio beyond our core categories of ball pens and gel pens. Through this partnership, we have successfully entered adjacent stationary categories, gaining valuable insights and experience along the way. While the revenue growth from Deli products has been slower than initially anticipated, the knowledge we have acquired has been invaluable and we are now better positioned to explore these new categories with confidence. This expansion allows us to target a much larger market estimated at over ₹38,000 crores.
- Building on this foundation, we have already launched several new products aimed at school children including the Pentonic Gum stick, mathematical drawing instruments, flexible rulers and playing dough. These products represent just the beginning of a broader expansion strategy with many more innovations in the pipeline. We are confident that these initiatives will significantly increase our total addressable market and drive sustained long term growth.
- I will now hand over the call to Mr. Dujari who will provide deeper insights into our financial performance. Thank you.
- **Mr. N. K. Dujari - Director Finance & CFO, Linc Limited:**
- Thank you, Mr. Jalan. Good afternoon, everyone. I'm grateful for your attendance at the FY25 Linc Limited Earnings Webinar. Before we move to the Q&A session, I would like to offer a concise summary of our financial achievement over the past year
- In Q1FY25 we recorded a 16.3% increase in the Revenue from Operations at ₹13,011 lakhs up from ₹11,188 lakhs in Q1FY24. Our operating EBITDA increased 8.4% year over year to ₹1425 lakhs in Q1FY25. With an operating EBITDA margin of 11%, the margin experienced a slight contraction of 20 basis point year over year due to increase in our primary raw material, polymers.
- PAT stood at ₹843 lakhs, 14.2% year over year improvement. And PAT margin for Q1FY25 was 6.4%, a slight decrease of 11 basis points compared to the corresponding quarter in FY24.
- We generated a strong cash flow from operation of ₹2741 lakhs underpinned by enhanced operational efficiencies. Our cash conversion cycle improved from 86 days in June'23 to 83 days in June'24 largely due to better management of payable days.
- Our commitment to strategic debt reduction is evident as Net Debt improved further to -₹2716 lakhs resulting in a Net Debt/Equity ratio of -0.1 and a Net Debt/Operating EBITDA ratio of -0.48. This reflects our continued focus on strengthening our Balance Sheet and optimizing our fan-ship position.
- As Deepak ji highlighted earlier, we are proactively expanding our market reach by exploring adjacent product categories. We plan to share detailed insights with all of you on these growth strategy in the coming quarters as we have even committed to fostering long term value and strengthening our market position.
- Looking forward, I want to reaffirm our previously communicated expectation of achieving a 17%-20% revenue growth over the medium term. The outlook underscores our confidence in the robustness of our business model and impact of our strategic initiatives.
- Thank you for your trust and partnership as we navigate these exciting developments. Your unwavering support plays a crucial role in our ability to move forward with confidence and realize the potential that lies ahead.
- With that, I'd like to transition to Question & Answer segment of the call.

- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Thank you, Deepak ji. Thank you, Dujari ji.
- Friends, we now open the floor for the Q&A session. Anyone wishing to ask a question, please raise your hand and we take it up. We'll wait for a couple of minutes while your questions line up.
- We take the first question from Zaki Nasir. Zaki, please go ahead.
- **Mr. Zaki Nasir – Participant:**
- Deepak Bhai, namaskar. Dujari ji. I think Rohit is there, Sanjeev Bhai. Sir, can you hear me?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Yes-yes.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Yes, loud and clear, Zaki Bhai. Please, go ahead.
- **Mr. Zaki Nasir – Participant:**
- Sir, I think congratulations on starting the year with a reasonably strong set of numbers. Deepak Bhai, what I noticed currently is your competition and the whole space is getting slightly excitable in terms of DOMS is getting more active, Flair is getting more active. The whole sector is a buzz. That means your ad spend won't necessarily go up. Sir, how do you look the sector panning out in this year with this new-found exuberance in this market? That is number one. Number two is, how confident are you on achieving this 20% growth target for the year, Sir, on revenue front?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Zaki Bhai, on your first question, the category has always been quite competitive. I mean, ever since, you know, I've been in this business. But as you can see that last couple of years we have done quite well. And, yeah, Pentonic has definitely helped us. Despite all the aggression by our peers, we believe that we'll be able to achieve our guided revenue growth with the help of new products which are lined up for introduction. So, yes, we are quite confident, Zaki Bhai.
- **Mr. Zaki Nasir – Participant:**
- And, Sir, what kind of your relationship with Deli and your relationship with Mitsubishi, Sir. Going forward, how do you look at these two relationships, which I think are pretty important and they are marquee relationships? How do you see these going forward, Sir?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- So, Zaki Bhai, as you know Deli currently is just distribution arrangement and it's, of course, an exclusive arrangement. So, we're trying to increase the market share in different categories like calculators or some office stationary products. So, yes, it will take a while to further deepen the relationship.
- But, as you know, with the Mitsubishi Pencil Company we've been associated since 1992 and it's a long relationship and we have been continuously talking to them for a deeper relationship in terms of manufacturing Mitsubishi products in India. But it takes time. So, yes, we are quite optimistic about our relationship with Mitsubishi going deeper.

- **Mr. Zaki Nasir – Participant:**
- Thank you, Sir, and best wishes for the balance of the year.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Thank you, Zaki Bhai. Friends, anyone with a question, please raise your hand and we'll take it up. Anyone wishing to ask a question, please raise your hand.
- Okay, we'll take a question from Vedant Mehta. Vedant, please go ahead.
- **Mr. Vedant Mehta – Participant:**
- Yeah, hi. Good afternoon. I just wanted to understand about the decrease in the average realizations. What is the reason for that?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- So, this is just like we have exhibited a quarterly ASP chart, so there has been some little moderation, which I don't see really any significant concern. So, it can vary a little bit from quarter to quarter. So, in this quarter, as I've mentioned in my opening remarks, that we had a significant corporate and institutional sales where the average selling price was lower. So, that was one of the reasons. But not really much of a concern.
- **Mr. Vedant Mehta – Participant:**
- Understood. But despite the premium launches, why is the ASP still going down?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- So, the premium launches at ₹30 and ₹40, they have just been launched and it will take a couple of months to really scale up, rather a couple of quarters to scale up all India. So, it takes some time. But we are not really worried about that.
- **Mr. Vedant Mehta – Participant:**
- Understood. Thank you.
- **Mr. Navin. B. Agrawal – Head Institutional Equities, SKP Securities:**
- Thank you, Vedant. Friends, anyone with a question, please raise your hand.
- We'll take the next question from Vaidik Bafna. Vaidik, please go ahead. Vaidik? Vaidik, we can't hear you. Please go ahead.
- **Mr. Vaidik Bafna - Participant:**
- Sir, can you hear me?
- **Mr. Navin. B. Agrawal – Head Institutional Equities, SKP Securities:**
- Yes, we can now. Please, go ahead.
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**

- Yeah.
- **Mr. Vaidik Bafna - Participant:**
- Yes, Sir, congratulations on your good set of numbers. I have two questions. Sir, firstly, I would want to ask our plans going forward? How do we see our plans for Pentonic as well as Linc? In Linc, which all products will be our new launches and same for Pentonic as well? At which price point we are looking forward? And when do we expect our realizations to increase in a meaningful manner?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Vaidik, you know, the plans going forward so far for Pentonic and Linc is concerned, of course, I have already mentioned in my opening remark and even in the past that we like to introduce more value added products under Pentonic portfolio, which will help us in increase our ASP and overall margins. So that continues as I mentioned that we have 30 products which we launched in last few months. They are in the process of being rolled out across the country, phase wise. Not just that, we have few more products in pipeline under the Pentonic portfolio, so this is about Pentonic. So far as Linc is concerned, our legacy products continue to do well and particularly in this quarter, they have done better than the previous quarters so we continue to focus on protecting our market share in the....those products. And we are also launching Rs.10 product in Linc portfolio. Actually we have already launched in one market and it will take upto 2 months to scale upto other markets.
- **Mr. Vaidik Bafna – Participant:**
- Got it Sir. Sir, my next question would be on our topline. This quarter we have tested around 130 crores of topline. So by the end of the year, where do we see going forward? Last year, we ended at 508 crores. So this year, can we see around 620 or 650 crores of topline? Is it possible? Sir, my question was regarding our new products being launched now and since we are also now coming up with many value added products, so can our growth be extended?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Vaidik, I would not really like to make any ambitious comment but we have already given guidance of 17-20% and we are quite confident that we will be able to achieve that kind of a growth this year.
- **Mr. Vaidik Bafna – Participant:**
- And Sir, for the next couple of years as well as for 26 and 27?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- So 17-20% is our CAGR, kind of a guidance which we have given for the next 3yrs. So we will be like on track. Yes.
- **Mr. Vaidik Bafna – Participant:**
- Sir, what about our EBITDA margins. In FY23, we had about 12.6% EBITDA margins and post that, none of our quarters have reached that kind of a sort of margins, like in Q3 FY23, we had margins of 14.5%. So anytime soon, can we see those margins back again in CAT?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Yes, we are working very hard to achieve that kind of a EBITDA margin which is actually it's not that it is not achievable because our peers are doing much better than that. So definitely it is achievable. I think we

need to work harder on this and am sure if we achieve that, the 17-20% growth, we would be able to achieve better EBITDA margins.

- **Mr. Vaidik Bafna – Participant:**

- Sir, should we build in margins of 12.5-13% by FY26?

- **Mr. Deepak Jalan - Managing Director, Linc Limited:**

- Ya of course. That should be our target, definitely.

- **Mr. Vaidik Bafna – Participant:**

- Sure Sir, got it Sir. And Sir, on our exports front, according to you, we will be able to achieve around 17-20% CAGR growth over the next 3yrs. So this would be mainly driven by most of our export market? Would our export market growth be higher than our domestic market?

- **Mr. Deepak Jalan - Managing Director, Linc Limited:**

- No, I think, you know, definitely export should grow at a faster rate since we have low base in exports. So, but ya, overall, even the domestic market because of introduction of adjacent categories of new products, we expect to grow by 17-20%. In exports I think, we should grow a little better than that and should average out in that range of 17-20%.

- **Mr. Vaidik Bafna – Participant:**

- Got it Sir. Ya Sir, that's it from my side. Thank you.

- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**

- Thank you Vaidik. Friends, anyone with a question, please raise your hand and we will take it up. As the questions line up, can we pick a question from the Q&A board? This is from an anonymous attendee. Please request you to login with a name because it's always nice to know the attendee who is asking the question. Any domestic demand sluggishness due to the elections and the present heat waves? Also how did Red Sea cause any issue on the export's front? Was there any sluggishness due to the elections and the present heat waves?

- **Mr. Deepak Jalan - Managing Director, Linc Limited:**

- Understood ya. Well, on the 1st question, I would on a lighter note, I would say that, well if we discuss the performance with our sales leaders, you know this is the very obvious excuse which personally I don't believe in but ya, if you ask me that, what are the reasons of sluggishness, these two are the main reasons cited by most of our peers and I think in general, and of course by our field posts, so yes, you can say that and of on the export front, Rohit, would you like to comment on Red Sea?

- **Mr. Rohit Deepak Jalan - Whole Time Director, Linc Limited:**

- So Red Sea definitely didn't have bit of impact to exports. So basically it was only affecting the transit times which will of course also affect subsequent order and deliveries. We are working on improving our production lead times so that we can still make up for the delays that are happening on sea, on water.

- **Mr. Deepak Jalan - Managing Director, Linc Limited:**

- Ya, so to some extent, this has affected but we can overcome it by improving our lead times.

- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- The question has been answered for our anonymous attendee. Friends, anyone with a question, please raise your hand and we will take it up. We have a question from Ishpreet Kaur. Ishpreet, please go ahead.
- **Ms. Ishpreet Kaur - Participant:**
- Hi, thank you for the opportunity. I just wanted to understand, since Pentonic has already reached 40% of our sales and we see improvement of exports also as a percentage of sales but at the same time, we don't see any improvement in the margins. What are the levers that you see that you could take the margins to say 12-14% odd versus what the competitors are doing?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Ishpreet, your voice was interrupted, I think because of some poor connection at your end perhaps. So could you repeat?
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Ishpreet, can you please repeat?
- **Ms. Ishpreet Kaur - Participant:**
- Am I clear now?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Looks like better.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Yes, you are.
- **Ms. Ishpreet Kaur - Participant:**
- Sir, we wanted to understand more from the operating margin perspective. Pentonic has already reached say 40 odd % of our topline and even exports seem to increase in terms of percentage of our sales. So margins still remain at the lower end. We understand that due to some raw material fluctuation, there is an impact but still there is a large gap between competitors and us. So how is it that, that gap would be bridged?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Of course this is very obvious that you know, there is a big difference between our peers' and our EBITDA margins but you know, it takes some time to catch up. Definitely as I have mentioned in our previous discussions that we are.....I believe that our peers have better product mix than us. So we are working very hard on that to improve our product mix and so it may take some time but definitely we will reach there but ya, it's a gradual process, so this is what I can say right now. So as the Rs.20 and Rs.30 and Rs.40 products, they are scaled up and rolled out across the country, I am sure that will help us improve our overall margins.
- **Ms. Ishpreet Kaur - Participant:**
- So for us to track, a little simply, would it like Pentonic, which is a more premium brand, would their share increase by about 50-60 odd percent or export reaching a particular mark. So any particular levers that we should look at to track the improvement in operating margins?

- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Well, so far as Pentonic contribution is concerned, it's already close to 40% and our guidance was that about, anything between 45 to 50%. So as we get closer to that contribution, that is one lever. Another is definitely exports. So currently we are 18% and as we get closer to 25% contribution from exports, I think that would be a good point to achieve the desired margin.
- **Mr. Sanjeev Sancheti – Founder, Uirtus Advisors LLP:**
- Just to add also, that while this quarter the Pentonic share has gone up, it's also important for you to track the mix of the channel and this quarter as Deepak ji has already said, the trade channel was a little, the general trade was a little sluggish and corporate was strong and corporate comes with a slightly lower margin across categories and that's why you are seeing a slightly distorted vision on the overall margins. I think this is just a one-off and I am sure that this will, going forward this will, this is not something that's going to happen every quarter or every year. Ya!
- **Ms. Ishpreet Kaur - Participant:**
- Right! Great, thank you so much.
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Ya thank you.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Thank you Ishpreet. There is a question from Kartikeya Kumar Pandey on the Q&A board. Can you explain on how sensitive is our margin with respect to polymer prices?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- So, for a typical Rs.10 pen, the polymer is about 30% of our cost. So to that extent, the polymer, any increase in the polymer prices will affect our margins. So let's say, there is a 5% price increase in the polymers, 1.5% margin will be affected. So ya, this is for a Rs.10 product. This would have a lower impact on the 20,30,40rs. products.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- He had a 2nd question. Is there any specific step that the company is taking to counter the effect of volatility of the raw material prices and the effect it's having on our margins?
- **Mr. Sanjeev Sancheti – Founder, Uirtus Advisors LLP:**
- What steps we are taking to neutralize the over price?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Ya so, as I mentioned, as we launch and increase our volumes, add value products like 20-30-40rs., it will minimize the impact of polymer prices.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Kartikeya, I hope your questions are answered. In case not, please raise your hand and we will take it up. Ishpreet, you have a follow-up question?

- **Ms. Ishpreet Kaur - Participant:**
- No, thank you.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Your hand was raised, ok. Anyone with a question, please raise your hand and we will take it up. Anyone wishing to ask a question, please raise your hand. There is one more question..... Anyone with a question or follow-up question, please raise your hand. I guess, there are no more questions. If there are no more questions, I would like to hand over the webinar back to Deepak ji for his closing remarks.
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Thank you Navin. Thank you for organizing this and we are looking forward to a better quarter when we meet next.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Thank you very much. Thank you Deepak ji. Ya Sanjiv?
- **Mr. Deepak Jalan - Managing Director, Linc Limited:**
- Thanks to all the participants for taking interest and note tracking Linc Pen. Ya, thank you.
- **Mr. Navin B. Agrawal – Head Institution Equities, SKP Securities:**
- Thank you Deepak ji, thank you Rohit, thank you Dujari ji and Sanjiv for taking time out and thanks investors. Friends, any follow-up questions or unanswered questions, please feel free to write to us and we will take it up with the management. Thank you very much and have a wonderful evening.
- **Mr. Sanjeev Sancheti – Founder, Uirtus Advisors LLP:**
- Thank you.

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