

Dear Member,

We are pleased to inform you that Hidden Gem of June 2018 is released by our team today on 31st July 2018. Hidden Gem stock of the month is Control Print Ltd (**BSE Code: 522295, NSE Code: CONTROLPR**). Control Print has a market capital of Rs. 666 crores and operates in coding & marking Industry.

IMP Note: Complete detailed research report of Hidden Gem stock - Control Print Ltd will be released on 5th August 2018.

1. Company Background:

Control Print is India's leading coding and marking solutions provider for printing variable information such as batch numbers, manufacturing & expiry dates, MRP, serial number, special markings, logos, company/ brand name, & barcodes.

The company was initially set up a distributor for Videojet, however the tie up with Videojet ended in 2008. Later Control Print worked towards developing capabilities for manufacture printing machines and associated consumables under its own brand name.

The company's portfolio includes Continuous Inkjet Printer (CIJ), Large Character Drop on Demand Printer (LCP), Thermal Ink Coders, Thermal Transfer Over Printer (TTO), Laser Coders, Thermal Inkjet Printer, High Resolution Piezo Inkjet Printer and related consumables (ink/ fluids) and spare parts.

Control Print has state-of-the-art manufacturing facilities in Nalagarh, Himachal Pradesh and Guwahati, Assam with necessary support tools, services and amenities to ensure highest quality of products and services.

The company provides complete range of coding and marking solutions and widest range of Consumables for every application. It caters to the entire range of manufacturing industries including Personal Care, Food & Beverages, Pharmaceuticals, Construction Materials, Cables, Wires & Pipes, Metals, Automotive & Electronics, Agro-chemicals, Chemicals & Petrochemicals etc.

The company has technology collaboration with KBA-Metronic GmbH, Germany and Macsa ID, S.A, Spain. There is specialized R&D team of engineers working towards continuous improvement of technology. The company has more than 25 years of experience with 7,000 plus installations.

Mr. Basant Kabra is the Chairman and Managing Director of the company since 1991. He has more than 4 decades of experience in overall management of the company. Mr. Shiva Kabra is the Joint Managing Director, he has 14 years of experience and looks after marketing, business development and strategy of the company.

2. Recent Developments:

i) Indian Coding & Marketing Industry to witness Robust Growth – May 2018

Global Coding Industry is estimated at US\$ 5 billion as of 2018 and is expected to grow at a CAGR of 6-7% over next 5 years to reach approx. USD 7 billion by 2023. Coding and marking for food and beverages is expected to dominate the market in coming years. Continuous inkjet printer has been the largest contributor in the market and is expected to grow at a highest CAGR. Asia-Pacific and Europe collectively accounted for more than 70% in the global coding and marking market in 2016, owing to rising demand from the food and beverage, pharmaceutical and cosmetic industries. These industries capture the major market due to high demand at the customers' end.

Asia-Pacific is expected to contribute to the growth of coding and marking market due to stringent government regulation for coding and marking in the packaging industry worldwide and growing demand for packaged food and beverages in countries such as China and India. According to different packaging associations, appropriate electronic or electromechanical equipment should be used while performing the coding and marking process. The batch and code number along with the date of manufacturing should be clearly printed on the packing. This practice is strictly followed in the food and beverage industry, pharmaceutical industry and the labeling of agricultural products. Implementation of such stringent norms are likely to drive the market.

Coding and marking systems provide product related details on the packaging such as batch number, price, manufacturing and expiry date and other related information to the end-use. The global coding and marking market covers smooth logistics process where goods can be easily tracked from the manufacturing unit to the retail outlets. Coding and marking play an important role in packaging and logistics industry for food and beverages, pharmaceuticals, chemicals, electronics and other major industries.

ii) Raising of Funds through QIP – Jan 2018

In January 2018, Control Print raised Rs. 30 crores through a QIP issue. The company issued and made an allotment of 6,59,340 equity shares at issue price Rs 455 per share (including a premium of Rs. 445 per equity share) to two investors i.e. SBI Mutual Fund and Baring Private Equity.

The company intends to utilize these funds for acquisition, expanding its operation in global market and towards technology. The company is exploring opportunities to launch new range of products outside country.

3. Financial Performance:

Control Print standalone net profit rises 0.23% in the June 2018 quarter

Net profit of Control Print rose 0.23% to Rs 8.60 crore in the quarter ended June 2018 as against Rs 8.58 crore during the previous quarter ended June 2017. Sales declined 3.27% to Rs 43.53 crore in the quarter ended June 2018 as against Rs 45.00 crore during the previous quarter ended June 2017.

Control Print standalone net profit rises 27.67% in the March 2018 quarter

Net profit of Control Print rose 27.67% to Rs 9.32 crore in the quarter ended March 2018 as against Rs 7.30 crore during the previous quarter ended March 2017. Sales declined 3.16% to Rs 45.39 crore in the quarter ended March 2018 as against Rs 46.87 crore during the previous quarter ended March 2017.

For the full year, net profit rose 60.15% to Rs 31.63 crore in the year ended March 2018 as against Rs 19.75 crore during the previous year ended March 2017. Sales rose 17.66% to Rs 173.93 crore in the year ended March 2018 as against Rs 147.83 crore during the previous year ended March 2017.

4. Saral Gyan Recommendation

i) Industry has witnessed consistent growth of more than 15% over the last decade and is estimated to grow at similar rates in coming years with increasing traceability requirements driven by regulation & also internal quality control. The company growth is directly linked to manufacturing and packaging industry growth. Industry is oligopolistic in nature with total 4 major players accounting for approximately 80 - 85% of the market. Control Print has market share of around 20% and stands at fourth place. Other players are Domino Printing Sciences Plc, Videojet Technologies Inc and Markem-Imaje S.A.

ii) Control Print has been targeting to outpace the industry growth by increasing its market share at a slow and steady pace. The company is putting significant efforts to differentiate itself from competition by targeting industrial clients, launching new products to existing customers and entering into newer segments.

iii) Control Print is in a business which is bound to grow in coming years given the stringent legal requirements on display of essential product details, better inventory control & counterfeit prevention. The company has sound balance sheet with nil debt on books and return ratios in excess of 20 percent. The company is expected to register strong growth with continuous business from existing players and rise in demand from newer segments like dairy and sugar. As per management, the company is targeting revenue CAGR of 20% over next 2 to 3 years.

iv) Control Print is launching new products of TIJ Printer and High Resolution Piezo Inkjet Printer. Moreover, the company has localized production of certain inks of various printers to improve margins going ahead. Local manufacturing facilitates cost competitive supplies without any quality compromises. Control Print has launched and upgraded various models over time to expand its portfolio. However, CIJ printers continue to be the preferred printer, forming about 80% of company's business. As per the management, the market for this product segment is slow but steady, growing at around 8% per annum. However, the increasing adoption of other printers which the company has launched in recent years such as TIJ, TTO, and LCP printers is expected to drive the industry growth higher in coming years.

v) Control Print is now leveraging its Indian experience to tap new markets. The company has successfully entered Nepal and Bangladesh and now developing a strategy to focus on African market and ASEAN countries. With recent fund raising, Control Print is looking to expand its reach in Africa as part of its long term plan to become a global player. The company is also looking to work with partners outside the country to launch new range of products.

vi) The company serves to various industries which include agrochemicals & seeds, beverages, cable & wire, food, healthcare, pipes & extruded plastics, rubber & tyres, textiles, automotive, building & construction material, cement, electronics, FMCG, packaging & packaging material, plywood, steel & metal etc. As per management, none of the client contribute more than 5% of company's revenues.

vii) Control Print has registered sales CAGR of 16.9%, profit CAGR of 23.6% with ROE of 20.3% over last 5 years. Control Print has paid uninterrupted dividend from 2002 to 2008. However, later in 2009 there was decline in profits because of higher operating expenses incurred by the company due to new manufacturing plant and slower rise in demand. Hence, dividend was not paid by the company for 3 years (from FY09 to FY11). As profitability and cash flows improved later, company has resumed paying dividend with dividend payout increasing from Rs. 2 per share in FY11-12 to Rs. 6.50 per share in FY17-18. Dividend yield at current market price is 1.59%. The company has also rewarded its shareholders by issuing bonus share in the ratio of 1:2 in Jan 2016.

viii) As of Jun'18, promoter's shareholding in the company is 53.47%. Institution shareholding in the company is 17.13% which includes major investments from Foreign Institutional Investors, Foreign Portfolio Investors and mutual funds like SBI Long Term Advantage Fund and India Max Investment Fund.

ix) As per our estimates, Control Print can deliver PAT of 45.80 crores for full financial year 2019-20 with annualized EPS of Rs 28. At current market price of Rs. 408.05, stock is available at forward P/E ratio of 14.5X based on FY19-20 earnings. Company's valuation

looks attractive considering strong growth outlook of coding and marking Industry driven by stringent legal requirements on display of essential product information details.

viii) On equity of Rs. 16.33 crores, the estimated annualized EPS for FY 19-20 works out to Rs. 28 and the Book Value per share is Rs. 112.5. At current market price of Rs. 408.05, stock price to book value is 3.62.

Considering Indian coding and marking industry being oligopolistic in nature with limited players in the Industry commanding more than 80% market share, high entry barrier in the business, company's plan to increase its market share steadily in domestic market by launching new products and adding new clients, recent expansion to other countries to drive revenue growth, consistent higher operating margins of the company with debt free status, Saral Gyan team recommends **"Buy"** on **Control Print Ltd** at price of Rs. 408.05 for target of Rs. 790 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of 408.90
- 30% at price range of 320 – 350 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

Regards,

Team – Saral Gyan,
Saral Gyan Capital Services.

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Definitions of Terms Used:

- a. Buy recommendation: This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- b. Hold recommendation: This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- c. Buy at lower price: This means that the investor should wait