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SECTOR: CODING AND MARKING SOLUTIONS

Control Print (India)

STOCK INFO.	BLOOMBERG
BSE Sensex: 8,724	CTPI IN
	REUTERS CODE
S&P CNX: 2,644	CONP.BO

Equity Shares (m)	7.2
52-Week H/L (Rs)	135/27
1,6,12 Rel. Perf. (%)	23,100,218
M.Cap. (Rs b)	0.8
Avg. Daily Vol. ('000)	22

05 October 2005

Buy

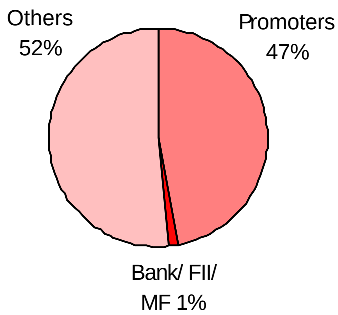
Rs111

YEAR END	NET SALES (Rs M)	PAT (Rs M)	EPS (Rs)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES (X)	EV/ EBITDA (X)
3/05A	330	43	6.2	79.2	17.9	3.5	19.1	25.5	2.3	12.3
3/06E	418	67	9.1	46.1	12.3	2.6	21.2	27.6	1.9	8.8
3/07E	550	97	13.1	44.6	8.5	2.1	24.7	30.3	1.4	6.2

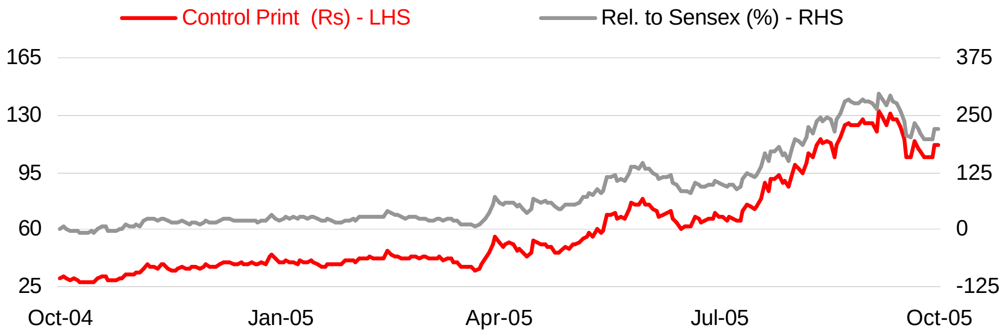
On the growth path

- The Indian retail segment is moving from the unorganized to the organized segment and is accompanied by an increase in branding. This has led demand for coding and marking printers, used to print variables like batch number, price, date of manufacturing and expiry date on consumer durables.
- Control Print is one of the largest players in the industry, with c.1/3rd market share, and is the sole marketing agent of Videojet, one of the global leaders.
- With the increase in installed base of its machines the demand for consumables is set to increase as it becomes a perpetual requirement of the machine. This will lead to a shift in its product mix from machines to consumables, which has higher margins.
- We expect CPIL's sales to grow at 29% CAGR over FY05-07E and profits to grow at 50% CAGR on the back of margin improvement. We recommend a **Buy** with a price target of Rs171 for the stock which is at a 20% discount to the DCF value arrived at considering a 6% terminal growth rate and a WACC of 14% (the company is a near debt free). The target price discounts FY07E EPS by13x and EV/Sales by 2.2x.

SHAREHOLDING PATTERN



STOCK PERFORMANCE (1 YEAR)



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Demand for coding/marking printers set to rise

Coding and marking printers are used to print variables like batch number, price, date of manufacturing and expiry date on consumer durables. The Indian retail segment is moving from the unorganized to the organized segment and is accompanied by an increase in branding. This has led to an increase in the branded and packed goods being sold. In order to protect the interests of the consumers, the government is taking steps to increase disclosure of information on retail packs like date of manufacturing, date of expiry, selling price etc. Earlier this information was pasted using preprinted labels. However, the information is subject to change and any change in production schedule/ prices/batches etc used to make the labels redundant. Moreover, the stickers are prone to manipulation by retailers/dealers and hence the manufacturing company prefers to print them directly on the pack. All this has lead to an increase in the volume of variable printing being done on consumer durable packs, and the demand for the same is likely to increase further, going forward.

Industry dominated by just three players

Nearly 90% of the world's coding and marking market is controlled by three players - Videojet, Domino and Imaje. The highly technical nature of the coding machines ensures that even in India these players control a majority market share. While CPIL is the sole selling agent of Videojet, the other companies are present through their 100% subsidiaries. However, in India there is stiff competition between the three players to set up their dominance.

MARKET SHARE DATA

	FY03	FY04	FY05	FY06E	FY07E
Total CIJ Market (Units Nos)	950	1050	1250	1400	1600
CPIL Market Share (%)	34	35	34	36	36
Domino Market Share (%)	34	33	32	32	33
Image Market Share (%)	26	25	24	24	24
Others Market Share (%)	6	7	10	8	7
Total LCP Market (Units Nos)	70	100	140	250	400
CPIL Market Share (%)	66	64	71	70	70
Total Thermal Ink Roll Market	160	160	180	550	700
CPIL Market Share (%)	0	0	55	91	100
Total Contact Coder Market	5000	5000	5000	5000	4500
CPIL Market Share (%)	0	0	2	10	16
Total TTO Market	30	50	80	140	200
CPIL Market Share (%)	0	0	15	71	70

Source: Motilal Oswal Securities / Company

Sales of coding machines increasing

Sales of coding machines have been growing at the rate of 15% for the last three years, but with consumer durable companies increasing their emphasis on branding, we believe the sale of machines should grow at about 25% going forward, as the volume of packaged items being sold increases. Moreover, with the company's products being used by market leaders, they are likely to gain acceptance among smaller consumer durable manufacturers as well. . CPIL has also been introducing new and better products in the market to suit customer needs.

Digital machines to drive growth

CPIL is in an advanced stage of negotiations with pharmaceutical companies to sell them digital printing systems of CSAT Digital Industrial Printing Technology GmBH, Germany, for on-line printing of foil for blister packs, valued at around Rs8m. The machine has the capability to print invisible marks, which can be seen only using ultraviolet light. This helps in detecting counterfeit materials. Moreover, the machines can be used to change designs quickly and is very useful to print characters in different languages accurately. However, the machine will probably be sold directly by Videojet and CPIL will only get sales commission for the same.

Growth in consumables business to follow

Consumables business is the most profitable segment of the company. The margins in this business are higher than that in the machine business. It is more stable than the machine business as consumables (such as inks) have to be purchased on a periodic basis and hence result in regular sales. The business however, depends on the machines being installed by the company. Hence, CPIL is now focusing on selling machines as once the machine is sold, the company can earn stable returns from sale of consumables.

SEGMENT MIX (%)

Segments	FY05	FY06E	FY07E	FY08E
Printers	70	65	55	50
Consumables	30	35	45	50

Source: Motilal Oswal Securities / Company

Setting up its own manufacturing base

Having been in the industry for a long time and given its experience in servicing machines, the company is setting up a facility in Himachal Pradesh to manufacture "Conprint HRC" a coder based on "Hot Melt Ink" technology and its consumables like Hot Ink Rolls etc. It also plans to manufacture Contact Coders- 'Conprint CC' and their consumables and other accessories. The plant will also have several backward area benefits including sales tax, excise, and income tax benefits. The plant is expected to go on stream in 1QFY07. Once its own production facilities are in place, the company's margins are likely to improve significantly.

CPIL has a wide range of products

CPIL has a wide range of products which can used to print on any type of material, like plastic, glass bottle, paper, wood and steel. This helps CPIL provide customized solutions to its customers, depending on their needs for printing on various objects of various shapes and sizes. It has tie ups with the industry leaders for various technologies, the prominent ones are:

Technology	Company
CIJ	Videojet
TTO	Videojet
LCP	Videojet
Postal Addressing and Mailing and Addressing	Videojet
CO2 Lasers	Videojet
Metal Marking Systems	Ostling
Digital Printing Systems for Blisters	CSAT

Source: Motilal Oswal Securities / Company

Background

Control Print (India) Limited (CPIL), incorporated on 14 January 1991, was promoted by Basant Kabra and Anirudh Joshi. However, the Joshi family have seperated themselves from the company in the current year and have reduced their stake by 13.4% from 26% in April 2005 to 12.6% in June 2005. This was done to concentrate more on their family business in Pune.

CPIL is the market leader in India for Coding & Marking solutions, having the largest product range to suit every coding requirement.Its products cover the entire range of coders: simple Contact Coders, superior Touch Coders, specialized Metal Marking Systems, sophisticated Ink Jet Coders and also advanced Laser Coders along with necessary consumables and spare parts. The company also provides service and training, along with its products, all under one roof. It has a sole marketing agreement with the world leader "Videojet" for its coding and marking printers and consumables in India.

CPIL serves a wide range of industries

CPIL serves a wide range of industries, which safeguard its business in case of a cyclical downturn in any particular industry. It serves diverse industries like pharmaceuticals, FMCG, paper, iron and steel, textiles and cable and wire. Its clientele includes companies like Tata Steel, Coca Cola, Pepsi, HLL, Colgate, P&G, Godrej, IOC, HPCL and Abhishek.

Concerns

Entry of new players

Entry of new players can increase the competition between existing players. Though, technology acts as an entry barrier.

Resistance to adopt new technology

CPIL is offering solutions to various companies and industries, to help them upgrade from old technology to new. But this type of change is often met with resistance.

Financials and valuations

The company's performance has been steady over the last two years. Net sales stood at Rs330m in FY05, witnessing a CAGR of 12.5% over the last two years (FY03-05). EBITDA stood at Rs62m (CAGR of 32%) and PAT stood at Rs43m (CAGR of 68%). EBITDA margin increased from 13.7% to 18.8% over the same period.

We expect CPIL's sales to grow at 29% CAGR over FY05-07E and profits to grow at 50% CAGR on the back of margin improvement. Increase in share of consumables business will help the company in improving the EBITDA margins. We expect EBITDA margins to improve from 18.8% to 22.7% over FY05-07E.

We have valued the stock using DCF method considering the stable nature of its consumable business and low capital expenditure required. The DCF valuation matrix assuming a WACC of 13%-15% and terminal growth rates of 5%-7% is shown below

	WACC		
Terminal Growth	**13%**	**14%**	**15%**
5%	222	197	177
6%	245	214	190
7%	275	236	206

Source: Motilal Oswal Securities

We recommend a **Buy** with a price target of Rs 171 for the stock which is at a 20% discount to the DCF value arrived at considering a 6% terminal growth rate and a WACC of 14% (almost debt free). The target price discounts FY07E EPS by13x and EV/Sales by 2.2x.

INCOME STATEMENT (Rs M)

Y/E MARCH	2003	2004	2005	2006E	2007E
Net Sales	**261**	**297**	**330**	**418**	**550**
Change (%)	*8.8*	*13.6*	*11.4*	*26.4*	*31.7*
EBITDA	**36**	**48**	**62**	**92**	**125**
Change (%)	*20.0*	*35.6*	*28.4*	*48.4*	*35.9*
% of Net Sales	*13.7*	*16.3*	*18.8*	*22.0*	*22.7*
Depreciation	6	6	4	4	7
EBIT	**30**	**42**	**58**	**88**	**118**
Interest	5	3	3	1	1
Other Income	0	1	7	9	10
PBT	**25**	**40**	**62**	**96**	**127**
Extra-ordinary Items (net)	0	0	0	0	0
PBT & after EO Items	**25**	**40**	**62**	**96**	**127**
Tax	10	16	19	28	30
Rate (%)	*40.1*	*40.6*	*30.9*	*29.7*	*23.6*
REPORTED PAT	**15**	**24**	**43**	**67**	**97**
ADJUSTED PAT	**15**	**24**	**43**	**67**	**97**
Change (%)	*29.1*	*57.6*	*79.2*	*56.0*	*44.6*

RATIOS

Y/E MARCH	2003	2004	2005	2006E	2007E
Basic (Rs)					
EPS	2.2	3.5	6.2	9.1	13.1
Growth (%)	*33.5*	*57.6*	*79.2*	*46.1*	*44.6*
Cash EPS	3.0	4.3	6.8	9.7	14.1
Book Value	28.2	28.8	31.5	42.9	53.2
DPS	1.5	1.8	2.0	2.2	2.5
Payout (incl. Div. Tax.) (%)	70.5	53.7	33.3	24.2	19.0
Valuation (X)					
P/E	50.6	32.1	17.9	12.3	8.5
Cash P/E	37.2	25.8	16.4	11.5	7.9
Price/Book Value	3.9	3.9	3.5	2.6	2.1
EV/Sales	3.0	2.6	2.3	1.9	1.4
EV/EBITDA	21.8	15.9	12.3	8.8	6.2
Dividend Yield (%)	1.3	1.6	1.8	2.0	2.2
Profitability Ratios (%)					
RoE	7.5	11.6	19.1	21.2	24.7
RoCE	12.9	18.3	25.5	27.6	30.3
Turnover Ratios					
Debtors (Days)	92	99	104	101	80
Inventory (Days)	77	123	89	77	69
Creditors. (Days)	15	18	14	14	14
Asset Turnover (x)	1.1	1.3	1.3	1.2	1.3
Leverage Ratio					
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1

BALANCE SHEET (Rs M)

Y/E MARCH	2003	2004	2005	2006E	2007E
Equity Share Capital	72	72	72	74	74
Reserves	130	135	154	243	319
Networth	**202**	**207**	**226**	**317**	**393**
Loans	25	18	19	25	22
Net Deffered Tax Liability	8	12	10	8	8
Capital Employed	**235**	**236**	**255**	**350**	**422**
Gross Fixed Assets	109	112	99	140	155
Less: Depreciation	26	31	22	27	34
Net Fixed Assets	**83**	**81**	**77**	**113**	**121**
Capital WIP	0	0	0	0	0
Investments	20	23	34	30	40
Curr. Assets	**181**	**179**	**213**	**276**	**341**
Inventory	48	46	48	65	80
Debtors	66	80	94	115	121
Cash & Bank Balance	5	2	2	16	40
Loans & Advances	62	51	69	80	100
Current Liab. & Prov.	**52**	**48**	**69**	**70**	**80**
Creditors	11	15	13	16	21
Other Liabilities	14	15	15	9	9
Provisions	27	18	41	45	50
Net Current Assets	**130**	**131**	**144**	**206**	**261**
Application of Funds	**235**	**236**	**255**	**350**	**422**

E: Estimates

CASH FLOW STATEMENT (Rs M)

Y/E MARCH	2003	2004	2005	2006E	2007E
PBT before EO Items	**25**	**40**	**62**	**96**	**127**
Add : Depreciation	6	6	4	4	7
Interest	5	3	3	1	1
Less : Direct taxes paid	10	16	19	28	30
(Inc)/Dec in WC	17	-5	-13	-48	-31
CF from operations	**43**	**28**	**37**	**25**	**74**
EO and Misc. Items	0	0	0	0	0
CF from Oper. incl. EO Items	**43**	**28**	**37**	**25**	**74**
(Inc)/Dec in FA	-5	-3	0	-41	-15
(Pur)/Sale of Investments	-10	-3	-11	4	-10
CF from investments	**-15**	**-7**	**-11**	**-37**	**-25**
(Inc)/Dec in Networth	4	1	-9	40	0
Inc/(Dec) in Debt	-13	-8	1	6	-3
Less : Interest Paid	-5	-3	-3	-1	-1
Dividend Paid	-12	-15	-16	-18	-21
CF from Fin. Activity	**-26**	**-24**	**-26**	**27**	**-25**
Inc/Dec of Cash	**1**	**-3**	**0**	**14**	**24**
Add: Beginning Balance	4	5	2	2	16
Closing Balance	**5**	**2**	**2**	**16**	**40**

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Disclosure of Interest Statement	**Control Print (India)**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.