

February 26, 2007

Linc Pen & Plastics Ltd.

CMP - Rs. 36 BSE Code -531241

Founded in mid-70s, the Linc Group has over the past 3 decades established itself as one of the market leaders in the Writing Instrument Industry of India. Linc Pen & Plastics Ltd. came out with IPO in 1995.

The company has three state-of-the-art manufacturing units - two located in Goa and one in West Bengal. The Goa unit of Linc is ISO 9001:2000 certified.

The company, apart from manufacturing writing instruments including various types of pens, pencils, crayons and markers, under the brands **Linc** and **Bensia** also has premium brands **Uniball from Mitsubishi Pencil Co of Japan and Lamy of Germany** in its product portfolio. The company entered into Mitsubishi Pencil Co. of Japan and Lamy of Germany to meet the needs of buyers demanding premium products. The company also joined hands with Bensia, the highly popular manufacturer of non-sharpening pencils targeted at the Indian school-going population.

DOMESTIC & EXPORT SALES

The company has a nationwide network of Distributors and Retailers. In the export markets, the primary focus of the Company has been on private label contracts with top chain stores in UK, North Europe and USA - alongwith positioning of its brand in markets like Argentina, Tanzania, Saudi Arabia and Egypt. The company exports to roughly 30 countries with US & UK accounting for lion's share. The company figures amongst the top 5 exporters of writing instruments from India.

Linc has an impressive buyers list - these include retail stores like **Dollar Tree, Office Works, CVS in USA, TESCO, Wal-Mart, W.H. Smith, John Lewis Stores in UK and COOP NORDEN Stores** in Denmark, Norway and Sweden. Of the total revenues of around Rs.135 crores for FY 05-06, exports accounted for roughly Rs.20 crores. The company's plant in Kolkata has been audited and certified by Wal-Mart and TESCO. The company is also working on tie-ups for contract manufacturing with the large writing instrument manufacturers of the world.

Brand Building

The realisation that the writing instruments business involves a high degree of direct interaction with the consumer has compelled the company to step out of a "manufacturing mindset" and lay more emphasis on the consumer. The company is currently working on the company's image makeover and brand repositioning strategy. The company has been allocating higher ad spend year on year which helped Linc Pen to increase overall brand awareness against stiff competition.

From Manufacturing to Retailing

The company ventured into the retailing of pens and stationery products and is currently opening chain of stores which sell pens and stationery products - under the brands **Just Linc** and **Office Linc**. **Just Linc** stores focus more on pens and Office Linc stores sell all office stationery besides pens. . `Office Linc' claims to offers its customers a range of office stationery products- from pins to laptops.

`Office Linc' has roped in channel partners like Airtel, DHL, Blue Dart, Microsoft, Music World, Book Cellar, Anderson Printing, Presto, Aqua Java, SKP Moneywise and Talk, who will stock their products and provide after-sales services in the `Office Linc' stores.

The company has ambitious plans for roll out of *Office Linc* stores on a nationwide basis.

Strengthening Manufacturing

The company's manufacturing facilities are getting a revamp to cater to the export markets. Besides, the company, in order to have better control is strengthening its information system, is undertaking Business Process Re-engineering and implementing ERP solutions from SAP. The ERP being implemented by Price Waterhouse Coopers would connect all its branch offices and plants with the central server in Kolkata.

Financials

The latest financials of the company are given as under :-

QUARTERLY - LATEST RESULTS - Linc Pen & Plastics Ltd (Curr: Rs in Cr.)

| Particulars | Quarter Ended (Dec 06) | Quarter Ended (Dec 05) | Quarter Ended (% Var) | YTD / Latest Half (Dec 06) | YTD / Latest Half (Dec 05) | YTD / Latest Half (% Var) | Year Ended (Mar 06) (12) | Year Ended (Mar 05) (12) | Year Ended (%Var) |
|--------------------|-------------------------------|-------------------------------|------------------------------|-----------------------------------|-----------------------------------|----------------------------------|---------------------------------|---------------------------------|--------------------------|
| Sales | 35.11 | 32.85 | 6.9 | 107.93 | 104.41 | 3.4 | 135.81 | 123.5 | 10 |
| Other Income | 0.02 | 0.03 | -33.3 | 0.1 | 0.11 | -9.1 | 0.19 | 0.18 | 5.6 |
| PBIDT | 1.99 | 1.55 | 28.4 | 6.98 | 6.84 | 2 | 8.27 | 9.19 | -10 |
| Interest | 0.57 | 0.5 | 14 | 1.63 | 1.31 | 24.4 | 1.8 | 1.23 | 46.3 |
| PBDT | 1.42 | 1.05 | 35.2 | 5.35 | 5.53 | -3.3 | 6.47 | 7.96 | -18.7 |
| Depreciation | 0.74 | 0.7 | 5.7 | 2.21 | 2.07 | 6.8 | 2.76 | 2.24 | 23.2 |
| PBT | 0.68 | 0.35 | 94.3 | 3.14 | 3.46 | -9.2 | 3.71 | 5.72 | -35.1 |
| Tax | 0.11 | 0.08 | 37.5 | 0.49 | 0.63 | -22.2 | 0.48 | 0.96 | -50 |
| Deferred Tax | 0.08 | -0.01 | LP | 0.17 | -0.02 | 0 | 0.01 | 0.03 | -66.7 |
| PAT | 0.49 | 0.28 | 75 | 2.48 | 2.85 | -13 | 3.22 | 4.73 | -31.9 |

The company has an Equity Capital of Rs.8.0 crores. The company has a track record of uninterrupted payment of dividend for the past 9 years and paid a dividend of 12% for FY 05-06.

Latest Data As On 23/02/2007

| | |
|------------------------------|-------|
| Latest Equity(Subscribed) | 8 |
| Latest Reserve | 18.63 |
| Latest Bookvalue -Unit Curr. | 33.29 |
| Latest EPS -Unit Curr. | 3.58 |

| | |
|---------------------------------|-----------|
| Latest Market Price -Unit Curr. | 36.45 |
| Latest P/E Ratio | 10.18 |
| 52 Week High -Unit Curr. | 60.1 |
| 52 Week High-Date | 2/24/2006 |
| 52 Week Low -Unit Curr. | 28.05 |
| 52 Week Low-Date | 6/14/2006 |
| Market Capitalisation | 29.16 |
| Stock Exchange | BSE |
| Dividend Yield -% | 3.29 |

The share price chart is given below :-



Conclusion

Linc Pens is a low cost manufacturer of writing instruments in India and is well placed to capitalize on the consumption boom in India. The company also has competitive strengths to be a supplier of quality writing instruments at most competitive cost to the global retail chains and be a contract manufacturer for manufacturers of writing instruments in the developed countries. The company has been focusing on brand building resulting in higher ad spend.

The company's revenues for the 9-months period have been flat with declining bottomline. This has been primarily on account of higher spends for expansion of the company's retail chains and strengthening of credit terms given by the company to its distributors. The company's Kolkata plants have been audited and certified by Wal-Mart and TESCO and the news of receipt of any major orders by the company from the global retail chains or any tie-up with global writing instrument manufacturers for contract manufacturing could lift the sentiment of the investors in the stock.

Moreover, expansion of retail chain of the company may be dampener to the profitability of the company over short term, the expansion however will lead to long term value creation for its shareholders. The stock had touched a high of Rs.85 in January 2006 when the Sensex was below 10000 and has now dropped to Rs.36, even though the sensex has climbed close to 14000.

The stock provides an attractive investment opportunity at the current levels for the long term investor.