



“Control Print Limited
Q2 FY2021 Earnings Conference Call”

October 26, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the Control Print Limited Earnings Conference Call hosted by Asian Market Securities Limited. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Bhatelia from Asian Market Securities. Thank you and over to you, Sir!

Karan Bhatelia: Ladies and gentlemen good afternoon, and welcome all to the Control Print Limited Q2 FY2021 earning conference call hosted by Asian Market Securities. From the management side, we have with us Mr. Shiva Kabra, Joint Managing Director and Mr. Rahul Khettry, CFO. I now hand over the conference to Mr. Rahul Khettry for his opening remarks and then we shall open the floor for the question and answer. Over to you Rahul! Thank you.

Rahul Khettry: Thank you Karan. Welcome everyone to the second quarter FY2021 earnings conference call of Control Print. We appreciate you all taking out your good time from your busy schedule to attend this call. Hope you and your loved ones are safe and healthy. Mr. Shiva Kabra, the Joint Managing Director joins me on this call.

Let us start with a brief on Control Print followed by specific analysis of the financials of the current quarter and end with Q&A session. The detailed presentation has already been put up on our website as well as the investor presentation notification on the exchange for this call. For those who are probably reviewing the company for the first time, Control Print is in the niche coding and marking segment, which is an oligopolistic market with four major players, three of whom are MNCs and Control Print is the only Make in India manufacturer. This gives us the advantage to sell our products locally and compete strongly with the other multinational players. We are the only integrated player with capability to manufacture printers as well as consumables in India giving us the advantage to share the benefits with our customers. This also gives the confidence to our customers for the long-term partnership with Control Print.

We have our manufacturing facilities in Nalagarh in the State of Himachal Pradesh for the manufacturing of printers and in Guwahati in the State of Assam for the manufacturing of consumables. Both the manufacturing locations are state-of-the-art facilities to produce good quality products. All our consumables are manufactured in Guwahati plant and in addition we have also started manufacturing some printers in that location. We have a strong sales and service team of 350 plus engineers across our 12 branches, which gives us



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the advantage to service our customers efficiently because predominantly after sales service is very critical to maintain customer satisfaction. The 12 branch offices across North, South, East, West and Central India gives us the advantage to be in direct contact with all our customers in a timely manner since our products are critical to their production process. Post sales of printers, there is a continuous demand for consumables over the life of the printers which typically lasts for 5 to 7 years depending on operating conditions. We have our complete attention on our customers' requirements to ensure that their production is never affected and service requirement is attended immediately thereby gaining our customers confidence.

We have end to end ERP SAP system setup which ensures maximum transparency in accounting, sales and after sales service as well as total control from raw material planning, to ordering, to receivable collections and is integrated with our CRM system, which gives confidence to the team, customers as well as the auditors and investors. We have a widespread customer base catering to multiple industries like pipes and cables, metals, automotives, food and beverages, FMCG, pharma, etc., and we continuously endeavor to customize our products to reach out to other industries to increase our installed base. We have the entire range of products in our portfolio to meet the coding and marking requirements of the industry, the details are elaborated in our company presentation.

As of today, the company has an installed base of 12000 plus printers across industries, which enable the sale of consumables across the lifecycle of the printer. We are very confident that we have the best in class products to meet the requirements of most of the substrates, which give additional advantage to the customers to do business with Control Print.

With a strong foundation and the five pillars that is man, machine, material, technology and finance, well established to augment our business plan, we are continuously striving for greater heights.

Let me give you a brief analysis on the financials of Q2 FY2021. The strains of COVID-19 continue to affect the economy and the business environment, although the unlock of the national lockdown in a phased manner has kick started the economy. The customers continue to ramp up the production volumes though in a staggered manner and most are yet to achieve the pre-COVID levels. These are extraordinary times when the strength of a company is tested, and we can assure you Control Print is geared up for any challenge. We are financially stable and robust and have exceeded our pre-COVID revenue level with a year-on-year growth of 6%. This stability of Control Print has also been reaffirmed by



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credit rating agency Crisil with an A rating after considering the short- and medium-term impacts of COVID pandemic. Our investors can maintain calm and belief on the company's management for a quick recovery and optimistic future.

We had a strong come back in this quarter with growth in revenue of 6% year-on-year inspite of the challenging times. Profit before tax also exceed the year-on-year figure which is a positive sign. The reason for growth in revenue was due to good volume growth in printer and contribution of the mask division. The company continues to maintain healthy margins with EBITDA at 24.7% and PAT excluding exceptional items at 17.1% for the half year, with scope of improvement due to better product mix and higher revenues triggering economies of scale and stringent cost controls. We have continued to maintain EBITDA margins north of 22% on a long-term sustainable basis.

I will now brief you on the performance of various divisions, products and business segment. Printers had a volume growth of 26% and positive demand in spite of this challenging environment, which is a strong signal for the increasing momentum of industrial production. The increased install base will drive the business in the coming quarter. The flagship division CIJ witnessed traction with the opening up of the customers and a slight growth in Q2. We are confident to continue our dominance in some of the industries where we have a strong hold like pipes, cable, steel, food, FMCG, beverages etc. and it is encouraging to see growth in some of the upcoming sectors like dairy, pharma, paints and wood.

Our product launches of the TIJ printer, High-resolution printer and TUJ printer continue to have a strong traction due to acceptance of the printers by the market. We are confident of the potential in the coming quarter and years. With dedicated national level managers driving these verticals which focus on specific sectors we hope to cement our leadership position in these applications. We have realigned our sales team to specialize in these segments which will give these new products the desired impetus. These new printers have done some good installations in the past few months and coming quarter should witness growth. We have also assigned separate managers to focus on OEM sales and key account customers account and the strategy is showing encouraging results and should yield to quantum of business.

Our LCPbusiness though reported a decline, but we are changing our focus to Non-LCP business and the team is confident of generating business in the coming quarters in sugar and metal. The HiRes business has shown good potential and will continue to grow in the coming quarter.



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Laser business is expected to climb back as product technology is being improved and the team has been changed. This will yield good dividends with positive response from the customers and new opportunities are expected in the coming quarter.

The face mask production has started, and the company has declared commercial production with effect from July 24, 2020. This will contribute to the company's revenue and profitability in the coming quarter, but we are not making any early predictions due to the volatile market conditions.

While Covid-19 has impacted economy as a whole, we are well placed to capitalize on any revival in demand led by a complete range of products, presence across industries and a well-established service network. With return to normalcy in Q3 and Q4 we hope for similar trend of growth trajectory.

Fundamentally the company remains strong and we continue to focus on our plans and strategy as we are confident of the growth potential to deliver positive results. Thank you. The floor is now open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohan Pinto, an Individual Investor. Please go ahead.

Rohan Pinto: I had a question on the balance sheet front. So we have seen that our inventory has increased by around Rs.7 Crores and receivables are up by Rs.3 Crores overall working capital is up by Rs.10 Crores and against that we had short-term borrowing I believe of Rs.6.5 Crores so if you can just help me comment on we have achieved a revenue growth at the rate of balance sheet deterioration so I will appreciate a comment on that, please that is it, that is my question?

Rahul Khettry: These are special situations right now, so we had to build up on some inventory for critical parts so that we do not get affected due to other countries going into lockdown or other suppliers getting affected. We did see some disruption in the supply chain in the start of the Coronavirus, and now with news coming of some countries going into second wave especially in Europe and some other parts of Asia, it was decided by the management that we should keep some inventory in hand so that we do not get affected as far as our operations are concerned. So that is one of the reason why inventory is looking slightly higher. For AR I would not be very concerned because it has increased by few days, but that is because receivables are more skewed towards the current quarter and that would get



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recovered in the existing quarter, so I am not so worried on the receivables front one thing that you mentioned about the bank...

Shiva Kabra: Also to top Rahul, one thing I want to mention was the inventory, everyone should understand that especially for our company, we normally tend to have just a single supplier for most of our materials because of quality, because of volumes are normally quite small in terms of what we purchase and therefore we tend to maintain a single supplier and also our own supply to our customers was affected during the lockdown period so maintaining that quality of supply was very important so that is also one reason why we have rebounded in the second quarter because we have also faced this issue with our competitor so it is something that everyone is known, our contribution to the customers is very small in terms of overall production, but it is also quite critical so we cannot for whatever reason, if we are not able to supply the customer so it is true that we have been maybe a bit conservative but we are quite sure that by the end of the year we will be absolutely back to where we were at the beginning of the year in terms of overall inventory like level something, Rahul just continue.

Rahul Khettry: Thanks for that. Also on the borrowing front which you mentioned it is basically because we cannot get our operations affected because of some small amount of borrowing. Previously, a lot of dividend has been paid out in the previous financial year to the tune of about 23 Crores because of which our liquid funds were utilized and as of now, we have a refund to be received from the Government of India to the tune of about 7 Crores which is pending for like seven quarters now, and if we would receive that on time then this bank borrowing was also not required, so it is something that is delayed from the government side, but I do not think we should be much worried at all. I think as Mr. Shiva mentioned by end of this financial year, we should be back to normal.

Rohan Pinto: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity. Sir one clarification, in your opening comments did you say that the printers volume growth was 26%.

Rahul Khettry: That is right.

Agastya Dave: 26% so that is a very good number. Now based on that sooner or later I think these new printers will contribute to consumable sales five to six months down the line or before that?



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Rahul Khettry: So generally in the current situation tough to predict when people actually ramp up and took their capacities into utilization, but our past experience is generally one or two quarters down the line that consumable will kick in.

Agastya Dave: Sir, I understand and appreciate the uncertainty in the business environment. Do you give some color on what your customers are telling you as of now on the consumable side and also on the printer side what kind of conversations are you having with your big customers any sense on that will be very helpful?

Rahul Khettry: So like I mentioned that the printers volume has gone up to double digit, 26% that we mentioned so that definitely means that people are not delaying their expansion plan, certain sectors of the industry I believe quite bullish and going ahead with their roadmap of expansion and that is why the printers are selling well. But on the production side may be the consumables volume has been seen back to where it was pre-COVID so that is one front which we hope that in Q3 and Q4 should see a rise, but consumables is it up the same way like printers are, so probably Q3 and Q4 consumers should be back and that is where our product mix changes and then our profitability also increases so that one of the reasons why you will see that though our revenues have increased profits are yet to see the positive side.

Agastya Dave: Right and one final question the impact of the lockdown and the production halt at our factory, so certain consignments must have been delayed and shifted to Q1 and Q2 from Q4 and Q1, right so they would be some shift so now all those delays and pending orders have been cleared and going forward we will have a clean Q3 again subject to the fact that there are no lockdown and no disruption?

Rahul Khettry: From our sides both our operations in Nalagrah as well as Guwahati have actually been operational since the month of May because those places had opened up and we were able to meet our customer demands. Apart from that complete country wide lockdown in the month of April we have been back in action right from the month of the May though our offices opened up in a staggered manner in different cities, but production facilities were operational and we do not have any much backlogs, so Q3 like you mentioned will be clean where there is no pent up or backlog that we will cover much better.

Shiva Kabra: I just wanted to say that I think for that 45-50 day period from March 20 to about May 10 of something, most of our customers are not producing anything at all, so we are like a dependent industry so except for a few guys in the soaps and dairy and certain food products, the rest of the industry was shut, like the distilleries, breweries, steel companies, their production so that production is lost, it is not like there was a pent-up demand because



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they were producing but they were not printing because if they were producing they are already using our printer, they cannot produce it and then put it on the side and then print it later if you understand what I am trying to say so there was a lost demand. There is no pent-up.

Agastya Dave: What I meant was that may be somebody placed an order on March 20, 2020 and the consignment could not be delivered. It was stuck either in transit at or at your end in your factory?

Shiva Kabra: There was some demand but it was irrelevant because always there at certain point of time but what happened is like what is more important was it was not like a pent-up per se demand is that the situation is more that basically we lost 50 days of the year or somewhere between 45-50 days depending on what view you take and everything and that was the time when there was no production so if the production itself was not, then our operating will not be there. So you know especially, theoretically we could have kept up selling printers, but even that was not really happening at that point of time, but we also lost consumers business at that point of time. So what I feel is the Q2 numbers are really much connected to what happened in Q4. But yes, you will see like some industries are doing better than others as Rahul mentioned.

Agastya Dave: Great! Thank you very much. This 26% printer group is a positive thing so, I hope we can keep it up all the best for the next quarter. Thank you.

Moderator: Thank you. The next question is from the line of Falguni Dutta from Jet Edge Securities. Please go ahead.

Falguni Dutta: Sir, I just wanted to know, did we see big jump in first time printer users because of this COVID issue I would presume that many people would not want to buy in lose and even smaller companies would want to sell their product packaged and printed?

Rahul Khettry: That shift definitely is happening from unorganized to the organized player and yes, we are getting new customers in our foray. Even my sales team tells that there is some strain with our competitors MNCs companies are having some challenges to meet the customer service requirement so we have seen some additional demand coming from replacement market where our competitor's printers could be replaced with our printers. Some of it has happened, but we assume that going forward that could also be a good market so yes new customer base is increasing.



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Falguni Dutta: This 26% volume good that you point, printers are only that cyclical replacement that happened once in 5 to 7 years most of it?

Rahul Khettry: It is tough to characterize that some could be buy back and upgrade of printers, but most of its new printer. It is a small amount which gets into buyback and upgrades so this will definitely add to our install base on the conservative front about 10% to 12% we should knock off from this before adding to the installed base.

Falguni Dutta: And Sir what would be the revenue growth in terms of how much was its volume driven and price driven?

Rahul Khettry: At this point of time it is all volume driven growth mostly coming from printers and our consumable was just about at the same level so it is slightly lower, but that is because of lesser production that will catch up.

Falguni Dutta: And sir, I have a last question, if you can share the absolute volume of printer's sales this quarter?

Rahul Khettry: 700 plus printers that we sold in Q2.

Falguni Dutta: Thank you Sir that is all from my side.

Moderator: Thank you. The next question is from the line of Madhuchandan Deb from M3 Research. Please go ahead.

Madhuchandan Deb: My question is there is a sequential jump in depreciation if you could explain that please?

Rahul Khettry: The main reason is that we started this mask project and the decision of the management was that we want to depreciate the machine on a volume basis and not on the useful life according to the company act can be spread over 15 years so we are trying to depreciate the machine while we are having this demand for face masks and that would help us clear out our machine base so the increase that you are seeing in depreciation is particularly because of that project

Madhuchandan Deb: Can you come back with the name of the product please?

Rahul Khettry: Face mask, we started the face mask project so about 1.5 Crores of depreciation is on account of face mask which you have seen as a sequential increase in the depreciation.



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Madhuchandan Deb: This additional depreciation is because of the face mask project so how much capital have you committed to that?

Rahul Khettry: We have about close to 10 Crores on the face mask that is pending and that should get cleared out in the first couple of years.

Madhuchandan Deb: Related question, I understand there is a lot of demand but it is like more of volume driven in a low end kind of a demand so do you think in terms of capital allocation can it match up to the ROI of your core business or what was the rationale of doing that in that case?

Rahul Khettry: To be honest with you that the intention of face mask project was because it was the need of the country and it was not opportunist or profit maximization, but we think that the revenue and investment will be able to cover our investments done in that project, will not be very long drawn project but in the short term we will be able to recover.

Shiva Kabra: For our existing customers, as you know we are serving a lot of customers, there was a requirement for some of our existing customers also local and international requirements. There was a screw up because the exports were banned which is not something that was considered initially, but now that it is opened up, I think we should get that thing moving at a faster but domestically we are doing okay. So, we have a lot of customers like Unilever etc., so we started from a CFR basis and also supplied to some of these customers and they were satisfied they want some more to be supplied to them as well, but I am also quite sure like Rahul said, we are also making an extremely high quality product at a reasonable level.

Madhuchandan Deb: So, you are exporting the face mask as well?

Shiva Kabra: Now we are starting, because it was banned till recently.

Madhuchandan Deb: Because of the shortage in the country...

Shiva Kabra: I do not know, some sort of legal thing we could not send it but now we can.

Madhuchandan Deb: What was the exact quantum of if you could get that customary break up of printers, consumables in the total revenue?

Shiva Kabra: I think it is in the presentation...

Rahul Khettry: About this quarter we had about...



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- Madhuchandan Deb:** No. It is not there in the presentation.
- Rahul Khettry:** So for this quarter printers was about 21% consumable about 50% and spares and service about 24% and mask was close to 5%.
- Madhuchandan Deb:** Related question is when you are seeing you have seen traction in printer and you expect that with the ramp up of production and some of the printers generating demand for consumables can go up so what is the best case estimate of consumable in your total revenue breakup, to what percentage can it go up in your total revenue?
- Rahul Khettry:** We have seen this go up above 60% also but anything above 56% or 57% is the strong number for us.
- Madhuchandan Deb:** So that can take your EBITDA margin beyond 25%-26%. Is that the correct understanding if should that happen?
- Rahul Khettry:** Yes. I think that is what we would like it to be.
- Madhuchandan Deb:** And your total borrowing is of order of 6 point something if I am not mistaken. Is that correct figure?
- Rahul Khettry:** Yes, madam.
- Madhuchandan Deb:** And what is your take on the borrowing? Is it likely to contribute?
- Rahul Khettry:** I think mentioned to the previous participant that hopefully by the end of the financial year we should again become debt free like we have been in the past, it is just that we have some refund stuck up with the government for 7 quarters to a tune of Rs.7 Crores so if that would have been in our kitty, again the borrowing would have not been there.
- Madhuchandan Deb:** What is this money stuck up with the government? What is this for?
- Rahul Khettry:** We have the GST refund for our Guwahati facility that on the quarterly basis we filed with the government that is pending for 7 quarters. The central government is yet to disburse the fund.
- Madhuchandan Deb:** That is about Rs.7 Crores.
- Rahul Khettry:** Close to 7.



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Madhuchandan Deb: And my last question if you could update on the status of the litigation and if you have created any...

Rahul Khettry: The courts have been shut since this lockdown and they are only taking I believe the urgent cases so, although this was planned to come up at the end of March, but that has not happened since then there is no further progress on the situation. We have already like we mentioned two quarters back we have already deposited some amount at the court and that is the status as of now. No progress.

Madhuchandan Deb: What is the kind of contingent liability that could possibly happen?

Rahul Khettry: So, we have taken the opinion of our lawyers and we believe that there is no contingent requirement because we still feel the case is quite strong in our favour and previously also the last hearing in the court has taken noting of our case that we put wherein definitely reduced the amount significantly to about 2.5 Crores, which we have deposited in the court, to be honest Rs.2.3 Crores and we feel that there are certain points that we have raised in the court which they have to yet assess which once it goes in our favour the whole amount could get reversed in our favour.

Madhuchandan Deb: Should the verdict go against you is there an additional liability?

Rahul Khettry: We do not know some more interest might added but it would not be too much.

Madhuchandan Deb: You have already deposited Rs.2.3 Crores as you mentioned and in case if this is a favorable verdict there will be write-back of this Rs.2.3 Crores, but in case of unfavorable verdict so what would be the maximum liability is what I am trying to understand?

Rahul Khettry: As we understand that may be some more interest in all might get added to this, but again the major part is already taken care of.

Madhuchandan Deb: It will not be more than Crore or something Crore and a half?

Rahul Khettry: I do not think.

Madhuchandan Deb: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Devanshu Sampath from Yes Securities. Please go ahead.



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Devanshu Sampath: Good afternoon sir, just one question. Can you elaborate a bit on the challenges that your competition is facing or was that something in the past and have they resolved those issues or still sort of having a tough time which we can sort of benefit from and continuing with that was the jump in our printer volume is due to higher sales coming in from the food and pharma space which is basically has been a strong hold of your peers?

Shiva Kabra: I will answer those questions. A lot of the increased business, you are right from the food sector and the beverage sector, not pharmaceutical so much, not in these few months at least so it is mainly food and beverage, industry has been a bit across the board like you cannot dump it altogether it is different from each type of sector, but F&Bs the one that has actually been the growth area for us in the last six months like it is the main area that has contributed, pharma also, but pharma is not to that same volume and as far as our competitors goes they had some issues, we also had some issues, I think we rebound a bit faster from that and serve our customer is better, but they have also picked up it is not from thing, so now I think and make things across the country seemed to be more normalized, but it seems to be at the present moment of time is what I would say, so I think everyone's back at a normal service level, so I think that is the situation. As far as any market share gains or other things I think it is partly yes because they had some issues and we had some issues and relatively we had less issues, but I think that the other positives of course Coronavirus has happened at an opportune time for us basically because we were already gaining market share if you look at our previous, we have gone well pass Rs.200 Crores and we were gaining market share because of the introduction of our new products and that is the reason we were actually picking up market share versus our competitors, so I think that there was sort of like three, four months halt because of the Coronavirus and now we are getting some of those sales which may be we were working on previously may be especially in certain couple of sectors like F&B mainly, but we are quite hopeful that if things continue to remain normalized then definitely we should at least continue to pickup some share, it could have been better of course that if the market were still normal, but the things normalizing and as the things getting back to normal if it still continue to pickup some share, it is as much mainly because our product portfolio is what it seem more than any other problems of competitors, it is probably more because of us.

Devanshu Sampath: Any new customers and we have been able to add because of this especially in the F&B space and I would assume this to be a fairly sticky sort of a situation going ahead, you think that can open up a lot more opportunity for us?

Shiva Kabra: We have mainly increased our volume of customers we already had, so a lot of customers are like large customers, they normally keep not sometimes one supply, sometime even two



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to three of us are here for a single customer, so I think there are more than anything we gained suppose may be someone had 100 printers may be 30, 40 of us and say 60, 70 of one or two competitors may be that position is has changed, we had 60, 70 printers may be other persons share or they will use from 100 to 130, because some companies are expanding, they are doing well and I think we have got disproportion modern of the replacement and then new business its come. As far as being sticky of course like our printers tend to be used for 5 to 10, 12 years depending on the model, depending on the customers requirement so I assume that with the printer that the customer purchased you would continue using it for a few years to come at least, so that is obviously a positive. Right now, like I said I do think we have got better products, and this is a continuing story from the previous years, except for the five, six months which has been very weird.

Devanshu Sampath: Last question if I may be your low base LCP cement is that sort of behind us in terms of base?

Shiva Kabra: I do not know this year drop further in the first six months, but I think this might not be because we lost customers, but I do not remember us actually losing customers, this is more because the production might be much less, but I am not 100% sure on that, Rahul, you have a better idea on this, do you check with these exact numbers, but again like I said most customers are slow so I do not think everyone moving that much again like I said when people are operating at normally 50% or something they are not really looking at expanding and adding lines.

Rahul Khettry: But we are changing our strategy in LCP like I mentioned they also and it has already hit the rock bottom so I do not think it will go further down, the dependency as of now is quite low, is less than 7% of our revenues on the LCP segment, non-LCP business now we are going into the sugar season, so my team tells me that we have got some good orders for November to March onwards, Dwarikesh, Balrampur Chini, Bajaj Sugar, Dhampur Sugar so quite a few sugar industries have come in our fold now in the last four months of the financial year we should see this LCP again coming back with stronger numbers.

Devanshu Sampath: Thank you. All the best sir.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.

Sunil Shah: Thanks for the opportunity. Sir, my objective here is to understand the competitive landscape, you mentioned that there are few international players, Sir, could I get the news



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of this players, the market share between each one of you if I could get that basic data please?

Rahul Khettry: MNC is there in our presentation which you would go through that to give you more information, but...

Sunil Shah: Profit share?

Rahul Khettry: That is I think also mentioned there, but it is like Domino, Videojet and Imaje, three main global players who are present in India also. In India, Domino is number one, Videojet number two and Imaje is number three and Control Print is number four, so that is landscape in India.

Sunil Shah: On the ability of product launches, Sir in the course of the call you mentioned that we could gain market share, because we launched some products early on, so could you give us some more insights into this, the frequency of new product launches again from the customer acceptance point of view, if you could give us more understanding on that?

Shiva Kabra: So we have set of different products, if you look at it, it's included in the auto market, we need to sedans, so this CIJ is like a sedan, it is the primary product may be the LCP was the truck, now one printer can be like the two wheeler and SUV or something, so we are getting into different segments of the market catered to by different printers and as you can see in certain markets people have different tendency like so there is a market for scooters, there is a market for performance bike, so the same thing is happening in our market also as the market is maturing some people are going for different types of products depending on their requirement rather than always going for standard two wheeler, motor bike of 100cc or 125cc the standard is, so the same thing is happening in our market and what has happened is we were frankly behind our competitors in certain of these other product categories outside the main product category, our focus was lesser, we were very much focussed on the Inkjet, the continuous Inkjet printer is CIG and large character printer is the LCP and now we have really beefed up our portfolio across the laser, the thermal inkjet, the PSO, Carbon M1 High Resolution Inkjet and also of course the thermal-transfer printers and what has happened is because obviously we would like to think is because our products are better of course that we came in later so we had a better product than our competitors and although we started later, we are right now better than them and we are gaining market shares as a result in some of these other product categories and our continuous Inkjet is also a high quality product, we continued to gain some market share there, again everyone has to understand that in our business is a very sticky business, so unless there is some serious



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issues people are not necessarily looking into change from one supply to the other, so the offering be the 10%, 15%, 20% better has to be 20% plus better for someone to consider change in the supply and something, I have to look like other much better value offering for me to change from one supply to the other so because we have got other products are there and they are giving a better value to the customer for certain applications there is a gain that we are able to capture.

Sunil Shah: One last question, I was just looking at some datas, companies like HP, they are coming out of some end switch can really be consumed in such kind of printers, so consumables it is 50% of our business, can customer approach HP and take the consumable directly from them versus coming to us?

Shiva Kabra: Our own thermal inkjet chooses an HP type, thermal inkjet is a HP type of technology, so our own thermal inkjet printer for example they actually used HP type cartridges, there are some limitations, you know HP can say whatever they want and we also say some stuff, but there are some limitations on these types of inks working on many types of products because of the adhesion level requirements in the customers if the ink requirements and also there is some issues in terms of throw distance, where it works it works very well, it tends to be more trouble free all the small expenses, so we off selling thermal inkjet printers based on the HP technology, we are doing well and we do get the actual cartridges from each of the blank cartridges and we fill them and sell them with our own smart card as a whole, first nobody can sell the printer that we have, because those printers are with our technology and our card, so it is all protected. HP is not directly selling the supply to people like us and other people and then people are using that technology to build the printers around that.

Sunil Shah: Just one last quick point, on the printers and the customers where we have sold the printer, HP or any other company cannot come and directly provide ...

Shiva Kabra: As I said like our printers have our own card inside and therefore our printers only require like our RFID tag is there, so if our RFID tag is not there, then the printer not accept anyone else's ink or cartridges. Whatever we sold is ours and of course that is preclude each different part the people and design a printer and high quality printer is not that easy to do, but we do not use HPs own inks, we actually have our own inks which we use ourselves.

Sunil Shah: Thank you very much for all the clarification.

Moderator: Thank you. The next question is from the line of Karan Bhatelia. Please go ahead.



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Karan Bhatelia: Thank you for the opportunity. What are the current utilization levels for our printers and consumable?

Rahul Khettry: The volumes of printers have increased, our facility in Nalagarh is quite equipped, so printer yes is utilized at about 80% plus, but consumable remain still sub 50% it is around 40%, 45% on the consumable side and 80% may be close to that on the printer.

Karan Bhatelia: We are talking of some capex on your earlier concall, so can you throw some light on that?

Rahul Khettry: That was just to debottleneck our stores facility in Nalagarh we are building a couple of floors to our existing store facility that is what we were mentioning, but it is just these are the operations that volumes increasing and we can easily ramp up our production by increasing the number of shifts because it is predominant an assembly plant, so even at 80% on the printer plant is nothing to be really worried about, we will not need any major capex.

Karan Bhatelia: Correct to assume Rs.7 Crores, Rs.10 Crores spent of capex?

Rahul Khettry: I think sufficient.

Shiva Kabra: We are investing Rs.5 Crores to Rs.6 Crores may be totally right now out of which most of the investment is complete, so I am going to Nalagarh tomorrow I was waiting for this call and then do the finishing touches, I think most of the job has already done.

Rahul Khettry: Most of it is done.

Shiva Kabra: We just ran out of space that there has been the problem we do not want to have a warehouse outside or a because some issues happen in terms of bottleneck that occur, so we have yes sufficient space and we have enough people and everything, we just needed a bit more space for better flow of goods.

Karan Bhatelia: How are things shaping on the international side?

Rahul Khettry: Export as it was earlier, but other countries are also going through their lockdown challenges, I think now it is trickling back, but our focus again remains on the domestic market, so exports our customers and installed base there is intact.

Shiva Kabra: It is also the travel and other things are restricted, so it is a bit difficult honestly to start like new businesses and to do certain things right now, because I am not saying like someone go right now the travel rules are not very clear quarantine and all the other things, so we can



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say whatever we want, but you cannot start a business or give it to anyone do many things on Zoom, somewhere it was affecting us, so what business to behave like in Sri Lanka and Bangladesh, they are continuing and they are doing okay, but expand upon that is right now quite difficult because this is practical issue and right now the travel rules needs to be very clear especially for international travel, because you know nobody else would go somewhere and then they changed the rule and you cannot come back or you stuck out there or I do not know what is going to happen, that is the practicality.

Rahul Khettry: Lot of countries also going through their second wave, Srilanka had reached zero cases in the past few months, but again now I understand from our team that they are again going into some kind of partial lockdown and certain areas have become quarantine and they are now again putting back the brake so it is better to stay where you are rather than experiment and travel and then get stuck.

Karan Bhatelia: Thank you that is it from my end.

Moderator: The last question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Good evening sir and thank you for the opportunity. Firstly sir, if you could elaborate in the face mask segments, what kind of opportunity are you garnering Rs.10 Crores investment in the segment and you talked about international market being that the key clients, so is it the N95 mask or something?

Shiva Kabra: It is surgical mask, it is for our existing customers, so we have lot of customers I do not want to give the names right here, but we have lot of customers who have basically international customers I think we are supplying them here, there was a little bit of may be, they want to have alternative source to China that is the way I would put it and there was an opportunity to sell to their factories elsewhere because the basic ideas if you look at most of the factories you come and you get a surgical mask everyday, some people also have N95, but you sort of come in and everyday you take a mask just to protect the workers from contaminating each other, may be contaminating the products that they are packing or producing, so that was a basic focus part, also we did from a CSR angle, so that is the thing, there was a issue because the exports actually was banned for quite sometime for now.

Saket Kapoor: This Rs.10 Crores investment will garner what kind of revenue in full capacity sir and the margins if you could elaborate?



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- Shiva Kabra:** I do not think that was the focus right now, I think the focus was started with a couple of crores which was basically for us CSR Rs.2 Crores, Rs.3 Crores, it was some expansion and of course there are some part of this working capital, some other things also involved, so idea was not from that angle, the idea was to take care of the segment, so I do not think like I said this was not a 10 year plan of course now there is a second wave, I think for at least one year I see this thing is there, but right now it is not like our main business as you said, in a few quarters we will recover our investments that is the target and then we will see what we wanted to do and our target is to do that by the end of the financial year, I think we depreciated good chunk of this stuff already so I think that is we are going to plan to be quite aggressive with that.
- Saket Kapoor:** This Rs.10 Crores figure is, I have got the figure wrong, you have made investment of Rs.10 Crores for the face mask...
- Shiva Kabra:** Approx something around that I do not know the exact number, it is around.
- Saket Kapoor:** And Rs.1.5 Crores is the depreciation which we have taken for this quarter?
- Shiva Kabra:** Something like that I believe, yes.
- Saket Kapoor:** Something like that going forward it will be another Rs.3 Crores for this year, so Rs.4.5 Crores is what has been getting depreciated?
- Shiva Kabra:** You can say that, yes.
- Rahul Khettry:** It is a volatile market right now, Saket, let us take it one quarter at a time.
- Saket Kapoor:** Depreciation is the point I was trying to understand. One point is about this consumable part, so we are lagging in this bracket of 40% to 50% for Nalagarh in consumable, so what are the key constraint sir and what will be the key as the economy recover, how sooner are we expecting this to be in the 60%, 65% because our printer base is increasing and we are also seeing that the customers which we are catering to are also posting robust volume, so is it the competition from peers in those categories that is the reason the consumables from our side is also lower, just wanted to understand?
- Shiva Kabra:** Six month is a very tricky period to look at, because definitely some industries have been like I said even most of our growth has been through F&B segment this six month period and in fact I will say in March 20, 2020 onwards obviously we got negatively affected because we would have crossed Rs.200 Crores last year for sure and this year we are



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looking at a strong growth on that, so it has been a bit of tricky period, I am 100% confident that, not 100%, but we are targeting that we will at least hit last year sales volumes and profitability overall at the end of the year and we have to understand that we were like about 40 days behind because in April our sales I do not know what it was, there has been couple of crores at most, so that was the lost difficult period for us and the factory was shut, so I think that the growth is there, at the end of the day it is about other people manufacturing goods and then using our printers to be variable information on them and that businesses is doing okay, but it is sort of segment driven many things like tyres, like auto they could have been down, but I think that overall seems to be the economy, it seems to be normalizing and if the economy normalizes then definitely the printers we sell will be used more, like instead of being used may be some people have 10 printers, 10 lines, they are only using three, four lines at this current period, so as soon as they get six, seven lines or they get from one shift to two shifts and so on, so automatically our ink business will increase as a result and same thing for the printers we are selling, lot of things are out of our hand, our only thing is that we can try to service customers the best we can and continue to make this market share gains because whenever the printer starts getting used which is totally out of our hand then that will translate into consumables growth then that will translate into bottomline growth, this is a very strange time, so it is not easy to compare.

Saket Kapoor: But sir, the point which you just spelled it out was that the H2 would be much bigger than what we people are expecting? If this recovery holds then H2 would be very bigger one and it is our endeavour that we would at least be reaching the topline and the bottomline which we posted for March 2020, this should be the point you are trying to convey?

Shiva Kabra: Our target is that for sure and it seems like luckily we are in a very good industry where even though some sectors have been negatively affected, some sectors have been positive in the same time I do not know why, it could be people at home and may be they are eating more food or I do not know dairy or whatever, but although some sectors are a little bit down, some sectors have been quite positive, in certain sectors like pipes and all have not been that bad I think because agriculture and stuff, certain sectors affected like construction definitely being affected, so it is a bit mixed but I think if there are no issues with the COVID situation and economy normalized, then I am quite sure we will do this.

Saket Kapoor: Very small point, I would like to make last year we went for the inventory write off also with some absolute inventory Rs.4 Crores, what are the stress that we now are doing on a continuous basis and this will not be a repetitive one going forward sir?

Shiva Kabra: Rahul will answer that question.



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- Rahul Khettry:** Like I mentioned in the previous calls also Saket because some of our inventory gets technological obsolete due to printers, so we will try to keep it on a year-to-year basis and consume it off as and when it is happening, so the stress test will be evaluated more frequently rather than piling it up to do a bulk write off.
- Saket Kapoor:** This is the now six-month basis you are doing or on a yearly basis, we will be hearing about this inventory...
- Rahul Khettry:** It will get charged out, you would not probably notice it the way you get now, it will be part of our business process.
- Saket Kapoor:** Okay, six months we have taken any writing off this time sir?
- Rahul Khettry:** In the first quarter we did the bulk one, so we do not need anything immediate right now may be towards the end of the year, we will evaluate once again and if anything is there, we will consume it off rather than going for an exceptional item.
- Saket Kapoor:** I did not get you Ssir, come again last point.
- Rahul Khettry:** We will evaluate it closer to the end of the financial year and if there is anything that we feel is going to get into obsolesce we will consume it in the P&L rather than going for an exceptional item.
- Saket Kapoor:** And last point was on the market value of investment sir, I think the investment value has gone up under the financial assets from Rs.14 Crores to Rs.2068 lakh, I think the OCI route, the profit is around Rs.7 Crores, so the market value goes up by that amount sir?
- Rahul Khettry:** It is mark-to-market like I mentioned in the March quarter it came down and this time it has gone up because the markets have revived, but it is not that it is mostly because of mark-to-market, but net over this half year we have been seller of investments.
- Saket Kapoor:** Even after the seller we are having investment, the investment has gone up from Rs.14 Crores to Rs.21 Crores, how will you explain it, if we are selling then how the value will go up?
- Rahul Khettry:** The mark-to-market has gained on that and like you mentioned Saket every time let us stick to the operational, we do not want to...



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- Saket Kapoor:** But it is a very substantial figure Sir, Rs.20 Crores for our company size is a chunky amount, so that is what the reason?
- Rahul Khettry:** But it is reported right and that is the figure.
- Saket Kapoor:** I am just deliberating on the same, just to have an understanding and we have been doing very good on our investments, it is all the positives only that is there in the system, so just wanted to understand how are the two gelling together, if they are booking profits and then also the value going up, it could not understand and lastly just you will have to say anything on this or anything else Sir in the investment part?
- Rahul Khettry:** The markets have gone up best for us, so we have done well on that front and everybody is to gain because it adds to our network. All I can say is like we had committed that it will not be part of exceptional item, it will all be part of OCI, so it is definitely good thing from what the company had committed.
- Saket Kapoor:** I got your point and provision for warranty figures, what would be that for this?
- Rahul Khettry:** There is arithmetic formula that we have put with our auditors based on how many printers we sell, the warranty gets accounted for that depending on the model of the printer, so that just figure that we need to put in actual, the more printer that we will sell we have 13 month warranty period, so automatically that provision increases and that is healthy for the company.
- Saket Kapoor:** As the period nears and there is no claim the same provision gets reversed that is what?
- Rahul Khettry:** That moves by delta, so if this year we have sold printers more than previous year the warranty will anyway go up, it is by delta provision is increasing.
- Moderator:** Thank you. I would like to hand the conference over to Mr. Karan Bhatelia for any closing remarks.
- Karan Bhatelia:** Thank you Rahul, thank you Shiva for your time. With this we can conclude the call. Rahul, any closing comments you would like to make.
- Rahul Khettry:** Thanks everybody for your time and stay happy, stay healthy and stay safe.
- Shiva Kabra:** The times are quite uncertain, just want to give that message and luckily the market now seems to be pushing back to normal and that is a big positive for us and I just think the



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important thing everyone stay safe and try to get back to businesses hopefully we all be very positive going ahead. Thanks.

Moderator:

Thank you. On behalf of Asian Market Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.