



**“Control Print Limited  
Q4 FY19 Post-Results Conference Call”**

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**MANAGEMENT: MR. SHIVA KABRA – PROMOTER & JOINT  
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**MODERATOR: MR. VINAY PANDIT  
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**Moderator:** Ladies and gentlemen, good day and welcome to Control Print Limited Post Results Q4 FY19 and Annual Performance Conference Call hosted by Asian Market Securities Limited. As a reminder, all participant 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 ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Pandit from Asian Market Securities. Thank you and over to you sir.

**Vinay Pandit:** Thanks Aman. I welcome you all on behalf of AMSEC to the maiden conference call of Control Print. On the call, we have with us Mr. Shiva Kabra – the Promoter and Joint Managing Director of the company and Mr. Rahul Khettry – the Chief Financial Officer. So, Shiva and Rahul, I would now invite you to speak a brief on the company, the business and the performance for the quarter and the financial year post which we will open it up for Q&A.

**Shiva Kabra:** Thank you. This is Shiva. I am going to thank everyone for taking the time out especially considering election, exit poll type of day and I think it is something that we thought we should reach out lot of question out there. So essentially in the year gone by, I think it was a pretty good year. Overall the industry continues to grow, so I think that it is still growing at 10 to 12% steady cliff that much at least while overall in the revenue terms and globally also continues to grow at about 4 to 5%, about 4% globally may be and I think overall the market in India last year would have been region of about 1200 crores and probably growing to about, you can take between 10 to 12% growth is what we should have compounded over the next two years at least, may be the market might double to 2500 crores over the next 6 to 7 years, but quite steadily growing at that range. In the end of obviously the overall GDP growth rate, especially the manufacturing of the industrial growth rate, but it is growing steadily and besides that, I think the industry continues to get more sophisticated, so there is more and more for trend in terms of customers getting more sophisticated and the choice of products widening rather than people just using flagship CIJ product for almost all their needs, so that is big changing trend globally and now it is happening in a big way in India also.

**Rahul Khettry:** Also, if you all will, most of you I guess have already interacted with Shiva and myself Rahul here, but we would like to just give you a quick brief on Control Print and then we can go on to specific of the financials of the current year and then Q&A session.

So, for people who are probably reviewing the company for the first time, the detailed presentation has already been put up on our website as well as in the investor presentation, which has been put up for this call, we have given a hyperlink for the company overview. As we all know that Control Print is in the niche coding and marking segment and we are an oligopolistic market wherein there are 4 major players, 3 of which are MNCs and Control Print is the only make in India player, so this gives us the advantage to sell our products locally and compete strongly with the other multinational players. We are the only ones who are manufacturing the printers as well as the consumables in India. All our competitors are

importing, they may need a knock-down condition or getting it manufactured and sourced out of different countries, so that does give us an advantage of being made in India manufacturers and give the benefit to our customers. This also gives us the confidence on the long-term scenario for the company because in multinational, sometimes you can take a decision of exiting a country and that does play out in the customer's mind.

We have two of our main manufacturing facilities, one in Nalagarh that is in the Himachal Pradesh which manufactures the printers, as well as in Guwahati we have a new facility which was set up in 2015 and is now fully operational manufacturing the consumables. All our consumables are manufactured in the Guwahati plant and in addition, we also have started manufacturing some printers apart from what we do in Nalagarh. We have a strong sales and service team which gives us the advantage to service our customers because predominantly after you sell the printers, the service becomes a very important aspect to keep the customer satisfaction. We do have a strong 350 plus sales and service team across pan India and these are all reporting to our branch offices which are about 10 across North, South, East, West and Central India. That gives us the advantage to be in direct touch with all our customers through our own employees and build our relationship for repeat orders and continuous supply of materials. So predominantly after you sell the printer, the main service aspect has to be taken care of in terms of AMC or CAMP or warranty supplies as well as the consumables which they have to buy from us on a regular basis, maybe monthly or a quarterly basis. This gives a lot of direct interaction with the customer and we get to know the pulse of the market as well as what are the improvements that we need to make in terms of improving our service.

We are having complete end-to-end accounting in our SAP module right from PO processing to collections, so it is a completely integrated ERP module in SAP and that gives the confidence to the team as well as the customers. In terms of customers, we cater to most of the industry and that gives us the strength to know what is exactly playing out like the pipe industry, the pharma, the metal, the automotive, the beverages and we keep doing other activities to improve this extension of our current customer base. We have the entire range of products available with us for all the printers that are required by the industry. The details are there in our presentation and we are very confident that now we have a good stable product in most of the industries which gives more advantage to the customer to do business with us. If there are any more things that you need to know on the company or the industry, the details are there in our presentation.

I quickly come to the current financial year and how it has played out for us. It has been a challenging year like most of you would be knowing. I have been interacting with you on a regular basis, so it has been a challenging year both in terms of revenue as well as the profitability. Though it has been a flat year in terms of revenue being the same as the previous year, we have continued to implement our strategy and improve on it wherever necessary. The main reason for no growth in the revenue, is weak industrial production in some of the industries where we have a strong presence and the decline in the cement industry which we have been telling you is going through a challenging time for the coding and marking industry.

These are the two main reasons why this year we have been able to not have a growth that we had probably expected.

Though we have had year-on-year volume growth for the consumable sales in the CIJ division which is good and shows that our customer base is well and continues to be strong with us, we would have expected definitely a higher growth in the CIJ division because that is the flagship division of the company and the consumable drives the market for us. But as I said that some of the industries remained weak during the current financial year and that has reflected in the numbers also. Though the volumes have increased in the CIJ division, in the LCP division they continued to decline because of the cement factor that we are aware of. The positive for the year and the silver lining is that the printer sales, we had a good range of printer sales and marginal year-on-year volume growth, so this will give us higher consumable sales expected in the current year with improved industrial production. We have to be a little patient for this year and confident as going forward, the number of printers and the installed base increasing will give a higher consumable sales.

Even on the profitability side, the couple of reasons why we had lower profits in the current financial year, the main reason those would have analyzed our results by now is that the employee cost has increased by about 5 crores and the main reason is that we have recruited more sales and service engineers to sustain the higher installed base and we are focused also more on the training of the sales and service team for better customer satisfaction. Even the training is sometimes a big cost for us because we have to move the service engineers from one location to our plant, sometimes give demonstrations and that does take a lot of expenses and time. But this was a part of a well-planned strategy as it takes substantial time for the service team to get trained. These engineers who come in, do take time before they can be hands on with the printers and handle the printers at the customer site independently. So though we recruited a lot of them and spend money, but this will give us good dividends in the coming years and with higher revenues, the employee cost we are confident will get absorbed, so it is looking high this year just because the revenues are flat, but going forward, this should be well taken care of. We are not worried but it was an important medium term and long-term decision which we had to take to increase our engineer strength.

Also, one of the points for the lower profitability is that we have received lower incentive for the Guwahati plant due to change in the indirect tax regime from excise and sales tax to GST. The refund that we use to get in the previous years has been lower in the current years, though this has an impact on our top line as well as our bottom line because the incentives used to get covered in both the places; however, going forward, the year-on-year comparison with GST will be similar and this will not affect our figures in the current financial year. Just to alert that it was just 3-month impact when we take the '17-18 versus '18-19 financial year. Also, as most of you would know that our business is mostly driven by the consumable sales and the profitability comes out of the more the consumables that we sell and this year, as I said that consumables has not grown, as much as we expected, and the product mix has changed in the

current year with higher sales of printers and this is one of the main reasons which has affected profitability.

To give a little more details on the positives is that all our product divisions are in the growth trajectory including the flagship CIJ division, apart from LCP division which is affected by the cement business, but we are confident this will turn around in the current year. The cement sector has bottomed out for the coding and marking industry and now there is a potential for better pricing and growth, so we believe that this is going to see a turn around. We have had some discussions with some of our potential customers and we do feel that the tides are changing.

Also, our new product launches of the TIJ printer, high resolution printer and the TTO printers have received good response from the market and exponential growth expected in the coming years. We have also realigned our sales team. We have different verticals focusing on specific industry which will give our new products the desired impetus. We have also assigned separate managers to focus on the OEM sales and the key account sales and is showing good results, so we are putting our strategies in place, so on special focus on certain industries as well as key accounts and OEM accounts and this was part of our strategy. We have continued on it and we feel that even in the coming year this will give us better results.

As you all would have seen, the company has had a strong free cash flows in the current year and the trend is expected to continue going forward. Fundamentally, the company remains strong and we are continuing the work on the planned strategy as we are confident of the growth potential. We strongly believe that in the medium and the long term, there is still a strong growth that the coding and marking industry as well as Control Print is going to experience and we have to just wait for more better times which, I think should come in from the current year.

So I think that was the brief of the financial results that have been put out in the investor presentation which is also on the exchange site as well as our website. Now we would be open to take Q&A session.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rohan Pinto from ICICI Direct. Please go ahead.

**Rohan Pinto:** If you could help me with the revenue breakup for printers, consumables, and services business for FY19?

**Rahul Khettry:** So as I said that there has been a shift in the ratios, we have more printers being sold in the current financial year and so.

**Rohan Pinto:** Right sir, I just wanted to understand the quantum?

- Rahul Khettry:** The printers, we sold about 2000 plus printers, about 2130 printers to be precise and it is more than what we did in the previous financial year. So probably this has been the highest that we have sold in the last 4 years and as a percentage, it is about 20% to 21% for the printers, consumables have fallen by a few points, so this is about 57% to 59% and spares and service take the balance.
- Rohan Pinto:** Sir, have you acquired any new customers since the past quarter?
- Rahul Khettry:** Yes, that is a continuous process and with the launch of our new printers, this continues to grow for us. So definitely our focus on the dairy, the plywood segments that we have discussed previously also keeps add multiple printers for us.
- Rohan Pinto:** Sir, we have made more inroads in the dairy and plywood segments, so we have added few more key clients, I think we added one key client in the dairy business, if I am not mistaken sir?
- Rahul Khettry:** Yes, we did that and others are also coming along. In the previous quarter, we had a bulk order which we have executed and work is continuing but again as I said, dairy we continue to add more customers even in the current quarter and going forward, this is definitely going to be a focused area.
- Rohan Pinto:** Sir, decline in the cement division, sir please help me understand, we readers, the utilization levels are improving and the volumes there is a pickup, so why are we struggling on the cement division?
- Shiva Kabra:** Actually, we are one of the large players and we sort of supply our printers with our consumers and everything as a sort of all in one solution to our customers. Now what happened was in the cement industry, there were some suppliers who will be called pirates or third party providers who enter to business, so suppose for example, a cement company someone say bought our printers, what they start buying the consumables from this other person, so he was offering fluids for our printers to the cement customers. They were quality and other related issues in terms of printers, specially to print adhesions on the bags but in cement, for whatever reason is the regulation is quite lag, so it seems that overly concern with missing prints which is a big red flag other companies and other industries. So because of that we couldn't push back to the customers, so lot of existing customers renegotiated deals with us downwards in the last year and a half and there were some volume loss, so it is not that the cement business itself is decreasing, it is that we have our own printers are being run by some other service providers at these customers where something like people have bought HP printers but they are not buying the cards which is from HP and that has happened in a pretty major way in the cement business. I think where we have come back suppose we are selling the cartridge at Rs. 2000, now we have to sell the cartridges at Rs. 1400 to Rs. 1500.

- Rohan Pinto:** No sir, I said that is concerning, I mean are we expecting then this trend to reverse and our clients not buying basically counterfeit products and coming back to our own?
- Rahul Khettry:** As I mentioned that the industry is going through a transition back to normal now because there has been...
- Shiva Kabra:** I will explain to you very clearly. See if you look at the fundamental of our industry, the reason why our industry exists is for two reasons and three reasons in certain cases, that is branding in certain cases like pipes, cables and wires, steel product and so on, plywood's, but the fundamental two reasons why customers buy our products is traceability and to meet the legal requirements, which is like the expiry date, the batch numbers, so on maximum retail price. If the printer breaks down, the production line stops and XYZ and so on. That is the only reason why oligopoly industry also because people don't want to take a chance with these type of products or this type of application. Now in the cement for some reason, they have got a very strong pocket powers. They have had issues. There have been many instances that like full rakes of gone without printing, just fading in the sunlight and so on. When they are using these private providers, but the thing is the cement industry sort of not being more on the consumer side, it is regulated by the BIS, by the Bureau of Indian standards, it is not actually regulator under something more stricter like FSSAI, FDA or those type of organizations. So even if the print is not there, the consumers are not so aware, so they do not complaint and we do complain, these guys are able to manage the complaints and we have actually taken it up with even two to three big cement companies at senior level saying that it is going to affect your own brand value and recall, but it is a sort of strange industry because they are not really scared about it. In fact, you can send them some links out wherever the issues have happened, it is even flat sometimes like complaints have happened. Those customers have also come back to us, but I think the industry has gone through a different change. Now to be honest what is happening that the printers that people were selling the pirating on were our own printers. In the cement industry, the life of this printers is quite short because of the harsh atmosphere, so I don't know how you guys to be into cement factory, but it is a pretty aggressive environment, so whereas our normal printer would last between 5 to 10 years, normal pharmaceutical or a food factory or something else, it may be last 6 to 7 to 8 years in the steel factory or powder factory and so on. In a cement factory the life may be between 3 to 5 years. Now what is happening is as our own printers are ageing, they are giving more and more problems to the customers, so that is causing the problems. Again, at the end of the day, suppose printers are beginning to need replacement and that is where the pirates are going to start finding issues, but again it is the strange industry because if today people do not care whether there is a batch number or a date code or something, then I can assure you not only us, even our three competitors in terms of dominant market have some serious issues because if nobody cares about meeting the regulatory requirements, it is going to be difficult for us, but this is the only industry where it seems like people do not care, they are not concerned so much, I have never seen this happened in any other industry or application under law.

**Rahul Khettry:** But we feel that the cement industry now has bottomed out and we have had some of the customers who burnt their hands and with the quality issues that Mr. Kabra just mentioned and they are in active conversation with us to get back into job work with them, so we are confident that now this industry will again take a turn around and we definitely move positively for us, so it shouldn't go down any further. We didn't want to take any short-term decisions which will affect the company, so we let go some of our customers, which in the previous two years, we continuously mentioned to you all and probably that is the reason why they are now coming back to us because they realize that that was probably not the best decision for their company also, so we are hoping that things will now improve in that industry.

**Shiva Kabra:** And sometimes it effects on printer, obviously seen in the short term, it happens over in longer terms, so normally they had issues but the life of the printers further shortened when we use them not properly compatibilities.

**Rohan Pinto:** Sir, can you help me with, how many total installed printers are there currently, so we had around 9600 odd base?

**Rahul Khettry:** So now, it has crossed about 10,000 printers that we have across all our verticals.

**Rohan Pinto:** And what is the average realization of consumables there?

**Rahul Khettry:** I mentioned that 2130 printers we sold last year. That would have definitely crossed 10,000. We will be closing 11,000 now.

**Shiva Kabra:** I am not sure, but it will be a reasonable number.

**Rohan Pinto:** And sir, the average realization then of consumables per printer?

**Rahul Khettry:** Now the active base has increased, so it has slightly come down but generally we do about 1.5 to 1.75 per printer.

**Rohan Pinto:** 1.5 to 1.75 lakhs per printer, right?

**Shiva Kabra:** That including the parts and services. We not talking about just fluids, we are talking fluids, parts and services and filters. So only for the total installed base business, out of which consumer I think is maybe 1,25,000 or something per printer, about 45,000 is parts, ratio is about I think 45% parts, spares and services and about 55%.....

**Rohan Pinto:** Sir one last question on the margins, so basically my understanding is when we sell more printers vis-à-vis the consumables that is when we have a hit on the margins, so going forward, basically how are we expecting us to be on the margin front because this quarter we have seen the margins declined by quite a lot and I believe that it is just a mix play here?



- Rahul Khetry:** Yes, we are very clear that if the consumables percentage comes down, the product mix changes, then obviously the margins do get affected, but we don't see any reason if once the revenues are higher and consumables will be the driving force, these margins will again be back in where we were few quarters ago, so again this quarter should not be the benchmark in terms of margin.
- Moderator:** Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.
- Karan Bhatelia:** Sir, is it fair to assume that our LCP cement had the RFID installed chips, so then how is it possible for any other ink to function in our printer?
- Shiva Kabra:** These are only be installed once we lost the business to pirates, we are talking about maybe since last year and half or two we installed first in our CIJ, then in our LCP printers and then on the other printers, but in the LCP printers took more than 2 years old, it would be there. The earlier LCP ones didn't have the RFID.
- Karan Bhatelia:** Sir, you mean the recent launched has...
- Shiva Kabra:** There are lot of extra printers because normally for every printer, they tend to buy one additional printer and some spares are standby. So they actually have a pretty large pool, so they don't need to keep coming back to us that fast, they planned that way. They also have a quite like to sell them the extra printers and parts so it is a bit of a combination.
- Rahul Khetry:** But overall, I mean for the benefit of everybody on the call that we should not overly focus on the cement side because we consciously led some business go, so that customers could actually see that apart from pricing there is nothing else glorious, transferring the business from us and I think that they have realized it now and I am sure that this will improve in terms of pricing also, they are coming to us. Even some of the regulations have actually gone through a change, that is the BIS has removed requirement for printing with the red ink in which Control Print was dominating the market and they moved towards black ink. I think they have just opened it up for any colour print and since we had higher margins on the red ink, this has affected us also, but again all this has as I said already happened in the previous two years. Going forward, it should only be brighter.
- Karan Bhatelia:** And sir of the total revenue of 175 crores for FY19, what could be the direct exposure to the cement sector and also if you can give the similar number Y-o-Y?
- Rahul Khetry:** In cement, we were earlier at about 17 to 18% and now we are down by about 4 to 5% with around 12 to 13% of our turnover now, so the amount is reduced, so the impact will be lesser, definitely even if we get affected going forward.

**Karan Bhatelia:** And sir, how has been the performance of pipe, cable, wires, even those are the substantial contributor to our topline, so if you can just break it out cement for 12 to 13% of total topline, what is wires and cables, what is pipes, how much plywood, dairy?

**Rahul Khettry:** We are strong in the industrial side, like we always told you all. We are about 60% of our thing is on the industrial side and 40% on the FMCG packaging side. That is the breakup we generally talk about. Not much of shift has happened in this, but now we are focusing more on the packaging and FMCG side with our pharmaceutical, with our new product launches.

**Shiva Kabra:** We did set of two specific teams, one is specifically targeting pharmaceutical, one is specifically targeting dairy. So I think we have got a set of products which really have much bigger edge for these two specific industries and they are also large industries. So we need to be working aggressively and then we can get a much better increase in business specifically in the dairy and the pharmaceuticals and maybe that will change our product, overall revenue mix, but the thing is given the other sectors, whether the cable and wire, pipes, steel, steel may be not so hot but we work with finished steel not really on primary steel, it does not make so much of finished goods, some metals like aluminum, automotive components and so on. They are still growing well, so even those business continue to do okay, tires, rubber. I also expect the industrial side to grow also and even packaging side as almost the mix of.....

**Rahul Khettry:** Yes, now we have the entire range of products, so we are sure that we will be able to penetrate more industries than previously.

**Karan Bhatelia:** And just wanted to have some signs on the competitive intensity in the new industry that we have got into like, dairy, plywood, how are the other global competitors' presence?

**Shiva Kabra:** I don't know if you look specially at dairy and stuff and if we just talk about plywood is mainly, we are competing against older technologies like roller code or special stenciling on plywood there is all stickers and all roller coders so we are competing more with older technologies. Others don't have a product suited for that sector, and Markem be the only competitor in that business. Then in pharmaceutical, there is another company outside the top 4, so they are quite well-entrenched but we got a better product portfolio than both of them and also if you look at more pharmaceutical product, they still do not have printing on the products, so this will have huge scope of this because most pharmaceutical product is still printed with your old roller code, you will see that blue stenciling especially on the **carton** and so on and even in dairy this is changing quite rapidly out there. The competition level is quite high, again we have got some specific edges like our printers are IP-65 rated, the legal requirements is so 4 mm meters in height in our printer, our CIJ printers print size of 4 mm and the total height of 15 mm which our competitors cannot do, so IP-65 which should enable you to have premium. We can also do some other things with our thermal inkjet and our thermal transfer in those industries. So the reason also we focus on these three we are going to have a competitive edge, same as what we have in cable and wire or pipe something we have the printers which can run these types of aggressive inks, speeds, print heights, colored inks and so on, in tires or

something that I think, although we are not focused much, it does not fetch us since we still have not developed that is also a pretty big industry that kind of expand for us if we go for it. So these are the ones what I think is we have got a big edge over most of our competitors and obviously there are other businesses where it is not like we have worked and it is the same but when it comes down to sales and marketing but considering we have three large competitors it is going to be...and everyone has their own specific set of strengths so it depends on you are leading in which industry.

**Karan Bhatelia:** And sir, one last question from my side, sir can you just quantify the possible impact of rupee depreciation and crude oil on our consumable margins?

**Rahul Khettry:** No, it is not as I said, previously also said, it doesn't affect us in a major way. A few decimal points just move in terms of our consumer pricing because it is a high gross margin product, so oil as well as forex doesn't really change our costing and we don't go to our customers to ask for zero base costing or something, so we are quite comfortable with minor movements which don't really affect us in a big way.

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

**Devanshu Sampat:** So just two questions, firstly can you comment on your working capital, it has increased a bit so what is the outlook on that, receivable days have gone in excess of 100, so anyway they were a little bit on the higher side, so they have increased, so what is the outlook on that?

**Rahul Khettry:** Working capital, as the receivables was never a concern for us, of course this increased this time, but it is mostly because more printers has been sold and one printer is installed, then only we get the amount from the customers, so large amount of it was sold in the last 45 days of the financial year and that is why it is probably reflecting by a few crores higher. This definitely in this quarter will get cleared out. So I am not worried on this and previously also when we have discussed I always told you that our cycle is like 60 days plus transit time, which is okay at about 80 to 82 days, so it will come down by a few days in terms of receivables, nothing additional days that we have given to our customers or it is just again a change of product mix which will correct itself. On the inventory side, you would appreciate that we have pulled back some of the number of days and from 137 days of sales we come to 129, so inventory definitely has improved and we hope to hold on to this even with higher sales.

**Devanshu Sampat:** Was this anything to do with the reclassification or was that done entirely in last year like whatever you cannot rent?

**Shiva Kabra:** There is nothing to do with reclassification, just better inventory management.

**Devanshu Sampat:** The second question is regarding the money we had raised last year also, we had some plans in terms of an acquisition moving to the new market outside India and possible focus on R&D or so, can you give some sense on what is happening there?

**Rahul Khettry:** We are continuing to invest in R&D though not from the main QIP kitty that you are talking about, that was for a specific project that right now, it is not something that we are actively progressing, we had discussion with them. The product is live, but as far as investment in the R&D facility goes that is not something that is actively being pursued right now.

**Devanshu Sampat:** This will be for which segment or which sector, this new product you are working on?

**Rahul Khettry:** This is mostly for our TIJ printer that we were working on. That itself even with the current technology is doing well for us, so we will wait for better time for better discussions with the R&D lab. As of now, we are not actively pursuing it with the lab that I spoke about. We will wait for them to come back to us rather than we going and working hard on that, but it is not affecting our business in any way. We continue to invest in R&D and other areas, smaller projects though not going for buying the lab or something. Also, India has been little more focused as we know the Indian market this year, so we will see how in the current financial year, we will take up the other geographies that we spoke in about but all the money that we had received from the QIP remains in the company. We haven't really invested apart from liquidating our working capital loan. We have a strong cash flow and amount is parked in the liquid fund to the extent of about 15 crores.

**Devanshu Sampat:** And acquisition, are you looking into smaller regional player, anything on that front?

**Shiva Kabra:** We don't have M&A division to be actively pushing it, but we always keep our eyes and ears open. We will pounce on anything that comes since we have a strong cash flow.

**Rahul Khettry:** See, Control Print is a strong profitable business, we just don't want, because we have extra cash flows, we want to pick up anything, we do get opportunities, but then we are more conservative than aggressive going for increasing our topline and losing out on the profitability.

**Shiva Kabra:** And a lot of them sort of if you compare don't sort of directly related to our business it is more like more on a packaging side or on the printing side, not really directly in coding and marking and I will be very honest. I don't think we have the bandwidth to pursue like in all foreign markets is what we figured out because we don't have that much managerial depth with experienced people to be able to parachute people into other countries to take over the operations so that is something we are also working on developing in the last year and this year and hopefully once we have that, then you can even look at other opportunities and other geographies and so on, so the problem in India is there is only three other competitors frankly that are worth talking about and we know that they are not going anywhere.

**Devanshu Sampat:** Sir, just the last question. There was some reclassification in terms of the promoter holding, can you just throw some light on that?

**Rahul Khettry:** Basically, Nyana Sabharwal was one of our promoter Directors. She has resigned. She was basically Shiva Kabra's wife and now they are divorced, so she is being reclassified from the promoter group.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** I hope continuity of the call going forward also.

**Rahul Khettry:** Yes, we will keep it on a quarterly basis.

**Saket Kapoor:** Firstly, if you could explain something more on the exceptional item part, we have a credit of 5 crores catalogue for this quarter, if you could explain how does it work and what are its implications?

**Rahul Khettry:** Saket, you would have seen in note 4, already explained the figure, a significant amount of it is from the mark-to-market of the equity which is as per the IndAS guidelines that was there, part of the one-time accounting was the exceptional item which includes 1.57 crores which is related to a decree in favor of the company through Cab Machines, Switzerland. So this was the case which Mr. Kabra had initiated in 1995, you have to give him credit that like after 24 years, we got a decree on this. It was basically an agency agreement and Mr. Basant Kabra had started that time relating to some fiber optic cable machine and stuff like that which this Cab Machine from Switzerland was introducing in India and we did book quite, as I am told by him that some of the orders were booked by us and then the company withdrew its agency contract, so that was the case that Mr. Kabra filed 20 years back and has been pursuing it. This company now is no longer existing, it has been wound up already many years back, but there was a certain amount which was kept as a bank guarantee with the court at that point of time in the 1990s and that then the court has released along with interest which we received in this quarter.

**Saket Kapoor:** So this money has been received by us sir?

**Rahul Khettry:** This money has been received by us.

**Saket Kapoor:** And sir, if you could throw some more light on the Liberty Chemicals part sir, what are we exactly doing there and what is the state of affairs?

**Rahul Khettry:** Liberty Chemicals continues to be an investment for us more on the long-term. It has its real estate asset and as of now, there is no active development plan that we are pursuing, so we will continue to hold on to that asset.

- Saket Kapoor:** Sir, any hindrance we are facing due to which sir, is the market sluggish, we don't want to venture out right now and what is our investment in it? How much have been there?
- Shiva Kabra:** To be honest, I don't think we have so much invested in developing or doing anything, but before like we said the market is there is a bit down, it is not easy to get a good price while selling it off either. So I guess may be in the market cycle turns around then maybe we will get a good value, so people have come to us normally they just doing development types stuff and all which I don't know Mr. Basant Kabra is looking at it. I think he is skeptical that all it means that you are just getting in a legal entanglement because you signed something that I am not serious about developing it and doing it will be more problematic, so I think its estimate is looking at holding on to the land and if we get a good offer for it, sell out it and encash it.
- Rahul Khettry:** Also the policies have been so fluid, what I hear from Mr. Basant Kabra is that RERA came in, the demonetization, the GST, sometimes it is plus or minus, so many changes happening, we are focusing on our current business and letting that asset grow on its own.
- Saket Kapoor:** Sir, this time you said that the mix was cue towards the printer part, that led to dip in the gross margin, the EBIT margin and henceforth. So sir, going forward, for the next year, what is going to be the mix in terms of the revenue and what kind of growth are we envisaging for FY20 and 21?
- Rahul Khettry:** The mix generally we are comfortable with when the printer is at around 15, 16, 17%. When that touches about 20, then it starts affecting our margin in the current year we have seen, but around 15 to 16%, it gives us again back to where we were a few quarters ago and as I said since we have sold enough printers in the current financial year also, the effect will be seen in this year once the industrial volumes do increase and consumables will be sold more so, again we are very confident that we should again be hitting that (+15%) growth.
- Saket Kapoor:** So we can expect a 15% topline growth for this year?
- Rahul Khettry:** To be honest with you we would have, I always told you as expected that also, so I don't see any reason that apart from, we haven't don't anything different that we had planned, so just that we continue to do our job and hopefully the numbers will reflect better in the coming year.
- Saket Kapoor:** Sir, last year what was the printer mix, I missed the percentage part for FY19, how much was the total turnover part of the printer sale?
- Rahul Khettry:** So, FY19, printers was close to about 20% and that moved up about 3 to 4% and consumables went down by 3 to 4%, so that shift is what has changed the dynamics from the profitability.
- Shiva Kabra:** So what utmost I believe is the excise revenue went down and so I think essentially the consumables have remained flat from last year's printer sales increase and that is whatever little growth has happened, but essentially obviously we are expecting the market should grow

10% to 12%, we should at least outperform that. I think in the previous year, our product mix that we have been working on for non-CIJ part has shaped up well. I think in the last year we had some more execution issues in terms of selling it because to train all the people because you have the product that doesn't mean you can train all the people that, it does not mean that the customers know about what it is, the target markets for them have been defined, so I think we are seeing that even quarter-on-quarter, there is like an improvement on non-CIJ products, especially the thermal ink and thermal printers and so on. So I think that is something by working upon that we are going to see a bigger pickup in times to come and that is going to be also one of the key revenue drivers going forward. It still will be a small percentage of our revenue overall, but is increasing and so it could have been hopefully gives us time for revenue growth that we expect normally to have a strong growth just to make up for last year's.....

- Saket Kapoor:** Sir, we do have a technological partner, KBA, what are the terms with them and what is the royalty payment that goes to them, can you throw some more light?
- Shiva Kabra:** We should be disclosed in our financial statements.
- Rahul Khetry:** Sorry, you want the annual royalty figure?
- Saket Kapoor:** Yes, what is the term of agreement with them and when it is due for renewal?
- Shiva Kabra:** We are with them for quite long-term. It covers only the CIJ product line. All other non-CIJ product lines, now we have brought them developed or developed them in-house, so we don't really pay any much royalty on that except for some inks that we need development for that we continue to pay certain amounts but you can say Metronic is our one key royalty partner left and we have a long-term agreement with them covering the next two year at least so we are talking of like may be next decade or something for now. I think in 2024 or sometime.
- Moderator:** Thank you. We moved to the next question that is from the line of Karan Bhatelia from Asian Market Securities as a follow-up question. Please go ahead.
- Karan Bhatelia:** Sir, what CAPEX are we planning for in FY20 and 21?
- Shiva Kabra:** Not, nothing really much, may be 2 crores to 4 crores, just a maintenance thing.
- Rahul Khetry:** Maintenance CAPEX may be some de-bottleneck of some production facility, but no big projects are coming up. We have our capacities well in place and Guwahati building is also up and ready, so we don't need to really invest in any plant and building, just machines, but yes, maybe 5 crores would be a good figure to keep a buffer.
- Karan Bhatelia:** And sir, how has been our initiatives for the newer geographies that we have entered last 2 years, Sri Lanka, Kenya, so what efforts are on that side?

- Rahul Khettry:** It is not actually a new geography though Sri Lanka has been there for some years, but now we have new country manager and the team there, so we hope that will increase. We have had a growth in Sri Lanka even in the last year, but it still needs to grow much faster to give us better results, so we are hoping that this year it would continue to grow, let us see how that happens. They are having their own challenges in terms of recent blast and stuff like that. Overall, it is a slow country and a small country, so it is taking its own time, but the India focus is the main thing.
- Moderator:** Thank you. The next question is from the line of Vinay Pandit from Asian Market Securities. Please go ahead.
- Vinay Pandit:** Could you just brief us on the production capacity at Nalagarh and Guwahati for inks and printers?
- Shiva Kabra:** So I think Guwahati has a capacity of about 100,000 liters of ink every month, it is more than a million a year. I think we are running about 50% of that capacity and in Nalagarh, as far as CIJ goes, I think we can make about 1800 and making about 1600 a year.
- Rahul Khettry:** So Nalagarh would be about 75% to 80% of capacity and we have tried and tested it that if we just increase our supplies from our vendors, as an assembly plant, it can ramp up further. So if push comes to shove we can definitely increase our capacity in Nalagarh, it should not be a bottleneck and as I mentioned that Guwahati building is already ready for printer production also. We are running two of our printers in Guwahati. If required, we can even put that into play. So in the medium term, we don't see any problem in the printer capacity and as Mr. Kabra mentioned that Guwahati plant, we have also de-bottleneck to some extent the capacity, so I think over the next two to three years, we are well covered. As of now, we will be anything between 40 to 50% as far as consumables is concerned and we have increased the manpower in sales and service, so man machine equipment all should be fine at least for the next few years.
- Vinay Pandit:** In terms of turnover, you have done 175 crores this year, so in your existing capacities that you have, what are the levels that you can do before doing any Brownfield or Greenfield expansion?
- Rahul Khettry:** Say close to 300-350 crores we should be able to go.
- Shiva Kabra:** Maybe we go about 225 crores, we need to spend 3-4 crores in Nalagarh and about 300 crores in.....
- Vinay Pandit:** And do you have capacity or space available in your Guwahati facility to expand further?



**Shiva Kabra:** Yes, we have some neighboring land which has got grass on it. So, we are going to land slit and all that something like that a slightly complicated procedure. I am not sure what it is but we have sufficient land.

**Rahul Khettry:** So we will be able to increase capacities, replicate what we have already done in Guwahati.

**Shiva Kabra:** Lot of space constructing, I think that much space we have.

**Vinay Pandit:** So from 350, what level can you go to if you had to use up that additional area?

**Rahul Khettry:** It is a tough thing to say now, but I think we should be able to at least cross 500 crores in that but again it is like more consumable focus and all. Again, in the long run also, we don't see that next 5 years, there would be an issue in terms of finding a new place at least.

**Shiva Kabra:** I think we have lots of space out this, I do not see we have any issue. I think like I said we have 25 crore to 30 crores, spend 3 to 4 crores in Nalagarh to have a little more storage space, not for the assembly, actually it is more for the storage space that we are something short of both the incoming and outgoing things, so that is what I see from between now and say about 300 crores.

**Vinay Pandit:** Aman, we will take the last question for the day.

**Moderator:** Sure sir, that is from the line of Ashok Shah from LFC Securities. Please go ahead.

**Ashok Shah:** My question is regarding competitors. Does any of the competitor has got a plan to establish in India?

**Shiva Kabra:** Domino has an assembly unit in Manesar, so they were operating out of Gurgaon before. I believe the Gurgaon is only the office now and in Manesar they are assembling the filters, but it is a different type, so they are not manufacturing, they get a full kit from abroad and then they just assemble the kit and I think it is to do the testing and the inventory management better out here.

**Ashok Shah:** Regarding our all the types of printers, does the all the parts and everything has been indigenous how much we import and how much we doing our export also to our technical collaborators also?

**Shiva Kabra:** We said we export some components to our partners and hope for them to make the printer and we are importing 30% of the value of the printer are imported.

**Rahul Khettry:** So most of our parts we have already done backward integration and have localized it, but sometimes we want to maintain two vendor bases in terms of supplies as well as quality, so that is the reason why import component still is at about 25 to 30% of our purchases, but that is

because we want to maintain it like that. We still have vendors in India if there is high fluctuation in the currency or something that we need to relook at our costing, we can always ramp up our Indian vendor.

**Moderator:** Thank you. We will take the next question that is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** Sir, as you were explaining about the new products which is there mentioned in your presentation regarding the three new product launches, the TIP printer, the thermal inkjet, the thermal transfer overprint and the high resolution printer, if you could specify what kind of, which industry they are going to cater and why are these mentioned specifically as the new product launches? What is the incremental business we are trying to get from this?

**Shiva Kabra:** Essentially the high resolution printer is used of printing on outer carton when you say make a batch of biscuits, you pack like the biscuits in a shipper carton or a corrugated carton what you call CLD and the use of high resolution print on the shipper cartons, barcodes, logos, graphics, along all the variable information, so in India as we have paint industries, the lubricants industries they have a lot of variations in terms of number part are being utilized, so that is where we only need to target the high resolution print and especially when there is barcodes being applied, so we used to replace labels of the cartons, the same printers also used in the wood industry in a big way, so it is used for printing on MDF, on plywood, on different types of wood products and it is used for printing on logos and graphics and that type of stuff to replace the old style roller code or stencil code and so on, so that is what the high resolution printer use. And we also use on some advanced applications, it is not really picked up so much in India or bought for that matter. The second printer is the thermal transfer over printer. This is already well-established printer in India, so the high-resolution printer is quite nascent, it is not pretty much prevalent as of right now. The thermal transfer over printer is a big printer even already in India and it is increasing in size, so use mainly for printing on food pouches, it is used a lot in snack foods, so you see chips Balaji wafers or biscuits like Britannia biscuits, farm and so on and we see that the common transfer printers used to print the variable information on that before they used to use continuous ink jets but on snack foods, the thermal transfer works out quite well. In the snack food industry, it is also used now in milk pouches, so on your milk pouch they are using also these printers so this is a big product already. I think last year may be it was 3000 printers and you will be starting to selling product properly in the last year, so we sold about 300 units of this also. Still we will a little bit behind, we think we can do double it, maybe we can more than that in this industry. This product we will be 4000 units a year and thermal ink jet printer that is also like large scope product and used in multiple industries for the biggest one would be pharmaceuticals certainly and also we set up a lot in again printing on corrugated carton which we pack your small carton suppose you make layer so you have a 12 layers in a carton and then we use this to print all the carton, secondary packaging, so that is why these are products are used and thermal ink jet is to some extent penetrate in the pharmaceuticals industries but still it is relatively under penetrated, and for other application it is totally quite under penetrated. And it is not various usage where it can

also be used, printing on labels, you can use on printing on certain types of mono cartons and stuff so it is more a flexible product. Other than that, the thermal ink jet can be utilized in the specific industry, some of the industries we are probably talking about pharmaceuticals, dairy, snack foods, plywood and wood, lubricants, paints, all types of shipper carton, all types of corrugated secondary packing.

**Saket Kapoor:** I was talking about the AMC parcels, since we have sold a higher numbers of printers for the last year, the AMC would come only after an expiry of how many years, the printers which are sold are...?

**Rahul Khettry:** They have only 12 months warranty, 12 months from installation or 13 months from invoicing, so that we had a standard policy for all our printers.

**Saket Kapoor:** So then the AMC business from the improved volume will kick only for the next financial year only, not for this year?

**Rahul Khettry:** Some of these sectors actually are quite less service oriented, so I don't think a big jump will come from AMC because it is like use and throw application, quite trouble free, so just customers might not go for AMC the way they do in the other printers.

**Saket Kapoor:** But the AMC do form the major, the mix is there for AMC also around 20% for our revenue?

**Rahul Khettry:** Yes, some of the customers will go in for it, but since it is less service oriented printer, may be AMC will not be the main revenue.

**Saket Kapoor:** Sir, two more questions, what sir has mentioned for Nalagarh and Guwahati, sir for Nalagarh you mentioned something about 150 to 160, I did not get that figure in the manufacturing part, we are making printer and consumable both at Nalagarh or only the printers there?

**Rahul Khettry:** Only the printers.

**Saket Kapoor:** And that is 150 to 160 per month capacity that we are driving?

**Shiva Kabra:** For the main printer for the CIJ, we grew about 150 comfortably a month and we sell about 130 probably 125 a month, so.

**Rahul Khettry:** Roughly it is about 2000, 2500 in a year we can manage in Nalagarh.

**Shiva Kabra:** And for the other types of printers also like, we make thermal transfer printers, high-resolution and we make large printers there so I think we got enough capacity like maybe we are working at 75% to 80% capacity.

**Rahul Khettry:** But we can, as I said, we can ramp up.

- Shiva Kabra:** It is not a big deal like Rahul said because there is a little bit of extra storage space and little bit of few extra people you can increase our capacity on that side sharply.
- Saket Kapoor:** And for Guwahati, the consumable and the printer both?
- Shiva Kabra:** Two printers, thermal ink jet and high-resolution in Guwahati, all other printers we make in Nalagarh.
- Rahul Khettry:** In Guwahati, we make all the consumables and two varieties of our printers and the rest of the printers are made in Nalagarh.
- Saket Kapoor:** Sir, if we take your recent document stay for about 4 to 5 years, this is a growing industry and oligopolistic in nature of the industry also augmenting growth for us, barring this hick up which we have for this year, what is the vision which we are working for say, 5 years down the line where we want to see our company if you could throw some light on this again?
- Rahul Khettry:** In the medium term, we are definitely targeting to cross 300 crores, which we discussing internally in the next within 3 years, we should at least reach that target and then next milestone would be 500 crores may be in the 5 to 7 years range, so that would take the company at least may be three times in the next 5 to 7 years, that would be our goal and this is all organic growth. I am not talking about anything inorganic if that comes along in the way?
- Saket Kapoor:** The dividend distribution policy as also is commendable for the company, so have we look at this payout ratio going forward also, the 35%, I think the pretax numbers are there?
- Rahul Khettry:** We have always been giving dividend, we would have like to give definitely more than this, but this year being flat and with even lower profits, we managed to maintain our dividend ratio because of good free cash flows. I don't see any concern that going forward with increased revenue, higher profitability and no major CAPEX in the next couple of years, dividend should not be a concern.
- Saket Kapoor:** So we can make into account that the trough has been made for the company as a whole for this year and now the curve is pointing upward only, the steps which we have taken and the money spend by us on employee cost and preparing the team which start yielding results in this year itself?
- Rahul Khettry:** Yes, hopefully. We should be back on track on our growth trajectory which we have been done previously and now with the election results, Modi gives some more freebies and other things for the industry, we should all be happy. I mean markets are reacting well to the exit polls. Again, lot of things depend on external factors, we cater to so many industries like Vinay and myself was discussing that we are a good benchmark to note that consumptions or production lines are up or down because if they are producing, then they have to buy our ink so Control Print can be a good benchmark to how the other industries are playing out.

- Saket Kapoor:** Sir what was the QIP sir, fund we have raised last time?
- Rahul Khettry:** We already discussed this point, I think you can read the transcript.
- Saket Kapoor:** No, what is the amount sir?
- Rahul Khettry:** It is 30 crores raised in January 2018.
- Moderator:** Thank you. Ladies and gentlemen that would be the last question. I now hand the conference over to Mr. Vinay Pandit for closing comments. Thank you and over to you.
- Vinay Pandit:** Thanks Rahul, Shiva, would you like to give some closing comments to the audience.
- Shiva Kabra:** I just wanted to thank everyone for taking the time out and we will catch up quite regularly every quarter and look forward to continue this conversation.
- Rahul Khettry:** And also just a quick thing just we will continue to work on our business strategy, just have confidence in the company and its management. We are not taking any short-term decisions which will affect the profitability of the company, but in the medium and long term, there is definitely lot of potential. As I mentioned that we have sold good number for printers in the last year, you can read that way forward is part of our presentation and we do really believe that it is achievable, so with higher consumables, profitability will be back. The new product launch is already in place, the sales and service team is well trained now, we are focusing on replacement market along with the OEM and key customers and with increased marketing effort, we will be able to penetrate more and more into our industry. Few smaller things that we are doing is participation in exhibitions in Tier-2, Tier-3 cities to meet and capture the last mile users. So definitely as Mr. Kabra said that the potential is there for the whole industry and Control Print being major player, we would be able to grow for the next few years. We don't see any major concern and any long-term investors will be happy with how we perform going forward.
- Vinay Pandit:** Thanks Rahul, thanks Shiva and on behalf of Asian Market Securities, I thank you all for joining us on this call. That will be all.
- Moderator:** Thank you very much. Ladies and gentleman, on behalf of Asian Market Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.