"Control Print Limited Q3 FY-22 Earnings Conference Call"

January 28, 2022

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MODERATOR: **MR. KARAN BHATELIA - ASIAN MARKETS SECURITIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to Control Print Limited, Q3 FY22 Earnings Conference Call hosted by Asian Markets Securities Limited. As a reminder, all participants line will be in 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 over this conference to Mr. Karan Bhatelia from Asian Markets Securities. Thank you and over to you sir.

Karan Bhatelia: Thank you, Hemant. Ladies and gentlemen, good afternoon and a warm welcome all to the Control Print Limited Third Quarter and Nine Months FY22 Earnings Conference Call hosted by Asian Markets Securities Limited. From the management side we have with us Mr. Shiva Kabra - Joint Managing Director and Mr. Rahul Khettry – CFO. I would like Rahul to take the call ahead with respect to the financials and then we can open the floor for Q&A.

Rahul Khettry: Thank you Karan. Welcome everyone to the third quarter FY22 Earning Conference Call of Control Print. We appreciate you are taking out time from your busy schedule to attend the call. Hope you and your loved ones are safe and healthy. Mr. Shiva Kabra, Joint Managing Director joint 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 the Q&A session.

The detailed presentation has already been put up on the website as well as the investor presentation notification on the exchanges for this call. For those who are probably reviewing Control Print for the first time. We are a 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 manufacture. This gives us an advantage to sell our products locally and compete strongly with the other multinational players. We are the only integrated player with capability to manufacture both printer as well as consumables in India, giving us an advantage to share the benefit with our customers. This also gives confidence to customers for long term partnership with Control Print.

We have our manufacturing facilities in Nalagarh in the State of Himachal Pradesh for the manufacturing of the 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 the Guwahati plant and in addition to this, we have also started manufacturing some printers in that location. We have a strong sales and service team of (+350) engineers across our 11 plus branches, which gives us the advantage to service our customers efficiently and timely since after sales service is very critical to ensure that the production lines of our customers continue to function continuously thereby maintaining customer satisfaction. The 11 plus branch offices across North, South, East, West and Central India gives us an advantage to be in direct contact with all our customers in a timely manner. Since our products are critical to their production line. Post sale of printers, there is a continuous demand for consumables over the life of the printer, which typically lasts for 5 to 7 years depending on the operating conditions. We have our complete attention on our customers' requirements to ensure that production is never affected and service requests are attended immediately thereby gaining our customers' confidence.

We have an end-to-end SAP, ERP system setup which ensures maximum transparency in accounting, sales and after sales service as well as total control from raw material planning and ordering to receivable collection and is integrated with our CRM system which gives the confidence to the team, the customers as well as our auditors and investors. We have a widespread customer base catering to multiple industries like pipes and cables, metal, automotive, 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 14,000 plus printers across industries, which enables 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 gives an additional advantage to the customers to do business with Control Print. With a strong foundation and 5 pillars that are man, machine, material, technology, and finance, well established to augment our business plan, we are continuously striving for greater heights.

Let me give a brief analysis of the financials of Q3 FY21-22:

Our Indian economy witnessed an increase in the manufacturing activities in Q3, which was encouraging but the increase in Omicron cases in December was a damper and affected the consumption sentiment. So, there was no stoppage in work, but there was a slowdown on the demand side. The repeated occurrence of COVID wave every few months is demoralizing the industry as they have to work on course correction, as well as ensure the health and safety of the employees. The gross margin were dented across industries due to increase in material prices of components, especially electronic, chemical, solvents etc. With the increased vaccination, the third wave is very mild, and the government is not willing to do lockdown, which means that the production momentum will continue and a quick bounce back is expected for higher margins, for higher growth.

These are extraordinary situations when the strength of the company is tested and we assure you that Control Print is geared up for any challenge. We are financially stable and robust and will continue to perform in spite of unforeseen challenges. This stability of Control Print has been reaffirmed by credit rating agency CRISIL with an A rating after considering the short and medium term impact of the COVID pandemic. Our investor can maintain their belief on the company's management for an optimistic future.

This quarter's performance once again delivered all round growth in revenue and margins and also has volume growth. Revenue for the quarter was above 60 crores at 62.72 which is the highest revenue in Q3. The year-on-year growth in revenue is 12.7% and the nine month growth is 25.3%. The reason for growth in revenue was due to good traction in consumables, the year-on-year growth of 16.4% in real value term, as the industrial production increased though we believe it is still not at the optimum level. The production of some of the industries was lower, due do raw materials shortages, so, there is still scope of growth in the overall production volume.

Profit before exceptional items increased 19.4% year-on-year and increased 29.8% for nine months.

Profit before tax increased 19.5% year-on-year and 54.3% for nine months. Profit before tax for nine months is almost equivalent to previous years PBT of 12 months.

EBITDA increased 14% year-on-year and 23.4% for nine months and continues to remain above 24%.

Profit after tax increased 20% year-on-year and 51% for nine months. Also to mention profit after tax for nine months is almost equivalent to previous year's profit after tax.

Working capital days improved significantly by 32 days this financial year due to better inventory management and receivable recovery.

The company maintains healthy margins with profit before exceptional item and tax at 17.9% and EBITDA at 24.5% with scope of improvement due to better product mix and higher revenue, triggering economies of scale. We should continue to maintain EBITDA margins North of 24% on a long term sustainable basis.

Let me brief you on the performance of various divisions, products and business segments.

Printer and consumables had a positive demand despite of challenging environment, and the increase installed base will drive the business in the coming quarter. The company's strengthened its market share in the building materials segment, and the dairy and food sector, including FMCG witnessed increasing customer penetration. The company received the US FDA approval for surgical facemask and is only the fourth company in India to get this acquisitions.

The SCP division witnessed nine month growth of 15% year-on-year as the production of customers were increasing. The growth was mainly due to improved production of some of the industries where we have a stronghold like dairy, healthcare, food, cable and wire, agrochemical and was also encouraging to see growth in some of the upcoming sectors like pharma paint wood.

Our TIJ, TTO, and HiRes division continues to grow exponentially with some good installation in the past few months. We have dedicated managers at these verticals with focus on dairy, beverages, bakery, frozen food, ready to eat, pharma packaging, plywood lubricate, carton coding. These new products continue to grow every quarter, which builds confidence on the potential of these products in the coming years.

Laser business is growing steadily as product technology is being improved and a new team is driving the business. This has yielded good dividends and positive response from the customer, the new opportunities expected in the coming quarters.

Service revenue has shown good growth in value terms which contributes towards profitability. Our strategy for separate vertical for key account and OEM business for focused approach is showing encouraging results and should yield good quantum of business.

LCP business reported an increase in previous three quarters with some revival in cement accounts and pan India supplies in sugar industry. We are changing our focus to non-LCP business with some new application and the team is confident of generating business in the coming quarters.

With new government directives regarding marking and coding in agrochemical, healthcare, plastic bags, we expect some good contribution to our business growth.

Customers, especially large business organizations are looking for coding and marking solutionsso, as to avoid counterfeiting of their product. We are offering complete solution including availability of our in-house software development team to prepare tailor made solutions as per our customer's expectation.

To intensify our reach to the customer, we have strengthened our inside sales team for tele-calling the customers to generate good quality leads. This is helping the field sales force to improve their strike rate for order conversion.

The company has strong cash flow and the trend is expected to continue.

While the pandemic retreats and with the increase in the vaccination population will result in robust growth of the economy and we hope for similar trend of growth trajectory. Fundamentally, and inherently the company remains strong and we are focused on our plan and strategies and we are confident of the growth potential to deliver positive results.

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 Gaurav Shah with Ashok Gandhi Securities. Please go ahead.

Gaurav Shah: I have a couple of questions. Firstly, what is your game plan to win market share from our competitors and take it from let say 18.5% to 25% to 30% in longer term. And secondly, during this quarter, we have got the US FDA approval for our mask division. So, what's the revenue potential here. Thanks.

Management: Thank you. Like we mentioned in the previous call, we now have the complete portfolio for the coding and marking industry and certain industries where Control Print was not able to penetrate like we mentioned our new product range of TIJ, TTO and HiRes printers, we are now able to generate good customer response there and these verticals are continuously increasing. So, we will be able to add more customers with these new features as well as gain market share. Even our CIJ team is very strong and now we have increased our inside sales team for tele-calling which will give you results and we are able to reach more and more customers. So, the conversion rate is definitely increasing and being a Made in India manufacturer, we are able to compete very strongly with our competitors. So, the trend shows that we are moving forward on the market share.

Gaurav Shah: So, have we got any market share from our competitor during last quarter?

Management: We couldn't get their number on a quarterly basis. So, there are no industry reports. So, we have to wait for the year end, or when they file their return probably toward the end of September, October of next year, then only we will get to know the market share. But the ground field keeps telling us that we are gaining competitor accounts which is a positive sign.

Gaurav Shah: Okay. The second thing on the US FDA approved for mask division, what's the revenue potential there?

Management: So, it's a great thing we are only the fourth company in India to have received his approval. And that has opened up the market wherein we can export the surgical masks to the US also. Earlier, there were restrictions because if you don't have the FDA approval, you can't supply to the US market. So, that opens up an export opportunity for us which the team will explore. As of now the third wave is anyway in progress. And that has seen an increase in demand for the face mask division. So, this quarter we feel that the mask division will be strong.

Gaurav Shah: Okay. So, you think we have an opportunity to reach let's say 10 crore or something in longer term?

Management: It's difficult to predict, because it's completely driven by on the wave and if things settle down and the mask thing goes down. So, difficult to predict, but as of now it's on the up**.**

Moderator: Thank you. The next question comes from Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat: Few questions from my side. So, can you elaborate a bit on the opportunity that arises out of the Department of Health's latest notification of having QR codes and batch codes and batch details for all the API's being manufactured, does this require an entirely new set of printers to be sold or are we going to sell more to the existing guys, can you put a number on how this could possibly expand 1200, 1300 crore industry?

Management: Yes, so specifically about the requirements to print QR codes or pharmaceutical products. Right now the latest notification does all this for printing on API, at the pharmaceutical ingredients don't have that type of volume. And normally they are packaged not directly on the production line, they package offline. So, what people tend to do is, pack them in barrels or mobile packing and the tendency is to print a label offline and then use the person to basically stick it, so there's a limited benefit from that, but as when it starts going down to the primary products, the actually finished formulations, which are manufactured online and definitely will get a benefit in that regard. So, the pharmaceutical industry has been a bit focused for us in terms of improving our market share and we do have a fantastic set of products for this business.

Our market share is quite low, because it wasn't a focus for us in the past. But it's something that they come up on. And definitely expect to be in that business. Our existing printers is capable of printing QR codes. Most of the existing printers which are installed as of right now are not capable. So, if the requirement comes on people's formulation lines, they will require to upgrade their existing installations. So, that depends on the government regulations and each company's decision in how they want to implement this.

Devanshu Sampat: Is there any timeline on which when this has to be implemented, are you aware of that. As a 1st Jan next year onwards amongst it?

Management: So, the regulation has come out once or twice before, but the pharmaceutical industry has a pretty strong lobby. So, it has come out and there has been withdrawn also. So, in general law, there's always resistance to enforce rules and regulations and of course, there were some technical difficulties in actually implementing this as well as we see like a few years ago, now it's much easier, not only us, the solution is available, so I don't know, this is like a very regulatory driven process, and it's going to come down to the government, we are seeing this whole.

Devanshu Sampat: Okay. And second question, I had touched upon this previously few calls earlier. But just want to get some sense from you on this. So, the consumables per printer is a key number to track, because assuming say, the last seven years is your printer that you've sold is what I have to term the installation base. So, if I look at that average the last two years have been below the average, we've been selling 1.08 lakh worth of consumables for printer in the last two years versus the average of about 1.2. And as I said, it picked out 1.3. Now, just wanted to ask or get some sense, have the prices been held on, are we holding on to prices or is there a pressure on prices only, or this is entirely to do with lower production, sort of utilization debits?

Management: It's more on the production side, like I mentioned also in my opening remarks, that we still believe that some of the industry are there, there has been shortage of raw material. Though their productions are happening, but there is still a gap of about 10% to 15% where we feel that the production can be higher. So, that's definitely one of the reasons why the per printer consumable seems low, plus the different product mix right now we have different printers, it's not only the CIJ printer, so some printers have higher requirements, different industries we are supplying to now compared to earlier, so every industry doesn't need a 24/7 production. So, various reasons Devanshu to be honest, it's not going to be at the same level it used to be two years back because that was predominantly on the CIJ printers with many specific industries. Now, the number of printers are different, the product mix is different, the industries are more vary. So, it might be slightly lower than the earlier figures, but current figures should improve is my take on it.

Devanshu Sampat: Sure. And lastly, we sold about 2950 printers in FY21, which is a COVID year and that, essentially is great because if you compare it to the preceding three years, you were selling about 2400 printers odd. Now, given the talks about CAPEX cycles recovery and all these things would it be, what are the numbers are you working with, are we looking at 3000, 3500 printers per annum or is that a bit conservative and can go much higher as per you?

Management: We can reach close to 3000, even for this year we are on target. So, we've done about 2100 printers in the first three quarters. So, we can be close to 3000 if Q4 is aggressive**,** otherwise we should somewhere be close to last year figures definitely.

Devanshu Sampat: And what will be the installed capacity, what is the manufacturing visibility in number of printers that we can do on a full assuming full capacity utilization?

Management: Again, it's a mix of different printers, but we're still at 75%, 80%, but since it's more of an assembly operation that can be ramped up without much of expense. So, we'll have to, of course source part more aggressively faster with the lesser lead time and increase some workflows in the factory. So, I don't see that to be a bottleneck.

Moderator: Thank you. The next question is from Deepesh Shankar with Trustline PMS. Please go ahead.

Deepesh Shankar: So, firstly, wanted to get the breakdown of revenue in terms of printers, consumables and service division?

Management: For this quarter printers is about 18% to 19%, the consumable will be about 52% to 53% spares and service will be 22% to 23% and the rest on the mask**.**

Deepesh Shankar: Okay. Secondly, also wanted to understand so how is our market share dynamics in terms of our newly launched products, so it's been now two to three years in terms of TTO, Thermal Inkjet, and even HiRes. So, are we able to successfully convert our existing customers to these new printers and new customers also, are we competitive enough in this new printers?

Management: Yes, definitely we are competitive that's why we are seeing that every quarter we are growing in these TIJ, TTO, and HiRes division. And these predominantly wherever our competitor customers, because we didn't have the product in our portfolio. But over the last two, three years, we've definitely penetrated well, and that is giving us a good confidence. And we are competitive that's why we are seeing these divisions grow exponential.

Deepesh Shankar: Okay. So, in terms of market share so are these new products are in-line with company's overall market share or it is still way below that levels?

Management: So, you have to look at the market overall, first CIJ is the biggest part of the market. And the non-CIJ products are growing faster. So, it's difficult to, look at an individual product, we look at more industry wise. But what I see is that of course we had a lower market share in the packaging side of business. And it's increasing so, we're definitely still much less than our competitors. But we've not really lost our market share in the industrial side. But we're gaining a little bit of market share on the packaging side. And that's a bigger part of the business than the industrial side as of right now in India. So, if we can gain little bit more market share a lot faster than obviously the potential for us to grow faster. And on the packaging side, there's a more diverse mix of printers. On the industrial side, it is more CIJ focused.

Deepesh Shankar: Okay. So, from next year onwards, are we looking at in terms of revenue growth, are we able to cross 20% kind of revenue growth are we looking at it aggressively now?

Management: So, if you notice that even in this year, we are quite in line for a 20% growth if Q4 is on track. So, we believe that we can achieve at least 20% this year. And hopefully next year will be COVID free. So, that will give us more scope for growth so yes, as we already mentioned that as a team we believe that 15% to 20% is definitely achievable.

Deepesh Shankar: Okay. And in terms of margins, now we are around 24%. So, what could be the driver, if we have to improve the margin from here on. So, are we working on in that aspects as well?

Management: **As** our business scale increases, we will see increase in margins anyways. So, we don't have to do anything extra aggressive on that, we have had some increases in this last year because of increase cost because of COVID. All around, including on the component side, we bought some things from the spot market so there has been cost pressures on us. So, if things go back to normal, and we get more scale we will see a big benefit in terms of SGNA improving as the percentage of overall sales and if, as a percentage of the cost base. And at the same time, you see an improvement in terms of the cost of materials, because right now, like I said so we have taken some cost pressure in the last couple of years, especially in the last few months, either whole stocks has been replenish, and then that will help us.

Deepesh Shankar: Okay. And lastly, in terms of this surgical mask division, so are we looking at putting up newer or higher capacity. And if so, then what kind of CAPEX are we looking to invest in that division?

Management: No, CAPEX, no investments.

Deepesh Shankar: Okay. So, whatever current capacity we will be probably selling to US market, so that's the plan currently?

Management: That's the market we will explore now, we just got the approval only a week ago. So, it is yet to be explored, right now with the third wave we are more focused on the Indian market.

Deepesh Shankar: Okay. So, what is the current capacity we have in terms of mask?

Management: We will let you know that there's more detail, because there are different varieties of mask,

Moderator: Thank you. The next question comes from Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Sir, I have a few questions, if you could help me understand the capacity utilization on the consumable side?

Management: All our consumables are manufactured in the Guwahati facility. And that was operational since 2016-17. So, as of now that was made with a long term vision and we have about 50%, 55% capacity utilization.

Swechha Jain: Okay. And like you said, you guided for a 20% growth this year and maybe a little bit higher growth over the next few years, so just wanted to understand the growth be primarily led by consumables business, or you think it's going to be primarily led by the printer segment?

Management: I will say the same proportion as what we are now because first we have to sell printers to sell things.

Management: In the previous question was asked, printer has sold very aggressively during COVID time, which is a good thing that, the industry still has a large demand and they are increasing capacity, probably more products are coming into coding and marketing industry. So, that is giving us the sales on the printer side, and once the printers are installed, the consumables will automatically follow. So, it will be a mix of both but consumables has more scope considering that last couple of years, what we've installed hasn't really seen the peak production of customer.

Swechha Jain: Okay, so basically I wanted to understand to get this 20% growth, would we need to do some CAPEX on the printer side, or because we're already at a 75% to 80% kind of a utilization are we thinking of expanding the capacity**?**

Management: Won't be any large CAPEX, it will mostly be maintenance or some debottleneck of at the factory level, but we don't envisage any larger CAPEX to meet this 20% growth, at least for the next couple of years.

Swechha Jain: Okay. And sir from the installed base of 14,000 printers that we currently have, could you help us understand what percentage of the printers are nearing the end of the product life cycle, could you give me some sense around it?

Management: We don't have that data to be honest. But that doesn't really matter, because we keep upgrading our customers or printer even if they are not at the end of life. So, we don't know when the customer will be replaced.

Swechha Jain: Okay. And sir now, what I understand is that the printer gets upgraded at the end of the lifecycle, so with the newer technologies coming in, the consumer will required new printer/technology or how does that ratio change as the customers move to new technology, and they upgrade their printers?

Management: Normally, one printers replaced by the same type of printers normally, so a CIJ, newer generation of CIJ something replaced with a TTOs older one is replaced with a new TTO and so on. So, there's not so much of CIJ being replaced by a TIJ or a laser not so much.

Management: No major change is what we can say.

Swechha Jain: Okay. Sir, just one last question and then I will join the queue for a follow up. So, if you could give us a revenue break up industry wise, this quarter versus last quarter and for nine months, this year versus nine months last year?

Management: To be honest we don't share this data on public platform because it's not available for our competitors also, and we don't want that information to be available.

Swechha Jain: Okay, no problem sir. But do you see a shift in any particular industry, like you mentioned packaging side and on the dairy side apart from that, do you see any significant shift?

Rahul Khettry: Like Mr. Shiva mentioned that, we are more focused on packaging now, maintaining our industrial market share, because the newer printers that we've launched over the last three years, they are more on the packaging side. So, this was not our forte, but these are helping gain competitors accounts. And yes, there will be some percentage it will increase on the packaging side for Control Print

Moderator: Thank you. The next question comes from Saket Kapoor with Kapoor Co. Please go ahead.

Saket Kapoor: Rahul as earlier in our last interaction also you did spoke about business sentiment not rising to your expected levels. So, of course the exit of the December quarter, how is the current business environment shaping up in terms of the demand scenario, especially for the consumable sector and also this being the last quarter, year ending quarter there is always traction that we expect. So, what's the thought process, how could the coming quarter shape up sir in terms of the business environment and then my follow up question.

Rahul Khettry: As I mentioned in my opening remarks also that, we believe and that's the feedback that we get from our team in the field, is that they still feel that the production of the customers can be up by about 10% to 15% more, not in all industries but definitely in some of them, where we have a good presence, especially like if I can just mention the pipe industry, there was a shortage of raw material of granules. So, many of them with a price increase and shortages had some extruders which were not running as they were previously. So, we feel that there is some scope of improvement in certain industry and that should help going forward and Q4 we are doing good response from our customers as well as revenue on the field that this should be a strong quarter. Hopefully, the third wave is now subsiding so that should not be a hindrance. And the Q4 is strong, like I mentioned we should be in-line for the 20% revenue growth.

Saket Kapoor: And the loss in the margins which we have, if I take the expense side items, whether it is the cost of material consumed, or even the employee cost, they have not commensurate with the increase in revenue, even sir if you take the quarter-on-quarter revenue, we have seen a dip from 62.80 crore not meaningful to 62.36 whereas the cost of material has gone up from 18 to 20 crore. So, what explain this two crore change in the raw material and sir going forward are we in a position to regain the lost part, if you could explain sir?

Rahul Khettry: Last quarter our, if you see the gross margins, I don't think there is a much difference in terms of percentage of few 100 points. It's not a very large change you've seen the sequential quarter, if you see the Q3 of previous year in fact we have gained some on the gross margins, which means that our raw material is still under control. But we would like this to be lower because there are certain places where we had no choice but to give price increase to our suppliers during this COVID times and even currently with the shortage of chips in the electronic market. So, definitely, the challenge is much more than what you're seeing in the figures, both Mr. Shiva and myself know how much we have to struggle to get the components from our suppliers. And it's like take it or leave it in terms of delivery. So, yes, it is getting tough. We have been able to manage and at least for the next few months we are covered. So, we are not worried on a short term basis and we are continuously in touch with our suppliers.

Saket Kapoor: Sir, the point I'm trying to make is for the September quarter, September 21 we posted revenue of 62.80 crore with a bottom line of 11.73. And now for this December quarter, we did revenue of 62.36 and a bottom line of 10.78 wherein we find the line items of employee benefit and other expenses as well as the raw material not commiserating with what the September quarter numbers were. So, that was my understanding, what factors have impacted the margin and overall, what steps are we taking so that we can regain the same going forward or is it permanent?

Rahul Khettry: So, like I mentioned that definitely and Mr. Shiva also explained that there are pressures on sourcing our component, which we are hoping that both COVID and once things normalize, we will be able to pull back a couple of percentages on the raw material side, I would be more optimistic in comparing Q3 with Q3 because that is a main comparison so if I do that then from 54 crores of sales we have gone up to 61 crores up of 12.7% and the profitability has gone from

9 crores to 11 crores which again is an up of 19.4%. So, Q3 is traditionally a weak quarter for us. And I have mentioned it in my opening call, that this 61.2 crore of revenue is the highest Q3 for Control Print in the past six years, or ever if I can say. So, let's look at it optimistically that Q3 has also been strong for us and Q4, like I explained will hopefully be in the same lines and we should deliver 20% growth. So, we will definitely improve from here both in terms of margin and revenues, if things are more in a steady state.

Saket Kapoor: Correct sir. Sir, even when we look at the notes to accounts and also the auditor remarks for the company wherein we have made a small investment, not small but innovative code, their performance and also a drag on a competitive level. Sir what steps are we taking there to improve the business and where are we sir in terms of getting innovative quotes also up scaling them sir and other points are about, any update on the liberty chemical real estate part and Videojet case, if you have anything to share on?

Management: So, Innovative Code you know that we did our investment only in August 21. So, it's still a baby right now and that was their first year of operation. Coding and marking industry has a gestation period when first we have to install printers and gain our customers. And that is the phase where you have to bear the expenses, and post the one and a half to two years of the gestation period when the consumables and all are being sold in the market that's when the profit starts rolling in. So, we did have a board meeting of Innovative Code and we have reviewed the situation and it seems to be in line with the coding and marking industry. We are hoping that post Q2, Q3 of next financial year, this thing will turn around and it will be in the profit zone again. So, considering one-and-a-half-year gestation period for innovate cost, it's a good start. We have a strong team; we are still getting more people on board. So, employees have to come in, there cost have to be borne for a couple of months before they start delivering. So, we're not worried on innovative cost, we have to be a little patient, and then it will start giving its own share in our revenue as well as our profit. So, definitely it will be profitable, maybe in Q2, Q3 of 2022-23, if things are normal.

Coming back to your second part of question, regarding liberty, there is no change on the real estate side. And even on Videojet most of the courts in Mumbai are still not fully operational. They did start post the second wave, but again only taking the urgent cases. So, as of now there's no development both in liberty as well as Videojet case.

Saket Kapoor: And as of now for the Videojet part we have made the sufficient provisions as per the last order that is to be?

Rahul Khettry: We made a fixed deposit with the protonotary.

Saket Kapoor: Okay. What is the amount sir?

Management: It is 2.30 crores.

Saket Kapoor: Okay, sir. And lastly sir, on the utilization levels at our Guwahati manufacturing unit, some capital work in progress was also due, some renovation part was also required at Guwahati if I'm not wrong, and the levels were also lower on the lower side, on the consumables, so how is the Guwahati plant operating currently at what utilization levels?

Management: We answered it in the previous question that Guwahati is at 50%, 55% so there's definitely no bottleneck or capacity issue. You're mixing it up with the Nalagarh where we were doing some expansion of our stores and production facility. But that has been done and capitalized in Q3 about 4.5 to 5 crores we have invested there, which is the major CAPEX for this financial year. Guwahati we are not doing anything large, it could be some amount, but no large CAPEX in Guwahati that I recollect.

Saket Kapoor: Okay, so on the Guwahati part, we are now happening on the increased level of performance from our user industries then the utilization levels for the consumables will go up, that is what we are working out?

Management: But firstly, for the next couple of years we are comfortable.

Saket Kapoor: Yes, sir as per our understanding now once you have told, we are looking for a minimum growth of 20% on what we closed last year. That is what you are.

Management: Hopefully Q4 we will give you the good news.

Moderator: Thank you. The next question comes from Shalabh Agarwal from Snowball Capital. Please go ahead.

Shalabh Agarwal: First question is, this is at the industry level, wanted to understand how easy it is to get accounts from competition, especially the three MNC player, because they may be having global tie ups with some of the bigger say FMCG players in India, and for these customers, given the cost of printing there might not be much incentive to really change the vendor. So, just wanted to check, how do we, what are the possible levers available to us to make inroads in such accounts?

Management: So, you're correct that the customers in our industry are generally loyal to their vendor. So, getting a competitor account is never easy. Nobody wants to reinvent the wheel and get a new vendor, when things are running well for last 10 years, it's only if the vendor messed up and there's always an unhappy customer, unsatisfied customer, that's when we get some way to enter, that was the traditional way of thinking. Now, we have these new products so we are able to exhibit the complete range to our customer that gives us a good entry even to competitor accounts, where we have not been able to open the doors for maybe more than five years now in spite of giving them the best of offers, and service commitment. But now with this new products, we have seen a complete fair opportunity given by new customer. And being competitive, a Made in India manufacturer has helped Control Print, we always proudly exhibit our service commitment to our customers. And service is a very essential part of our coding and marking business, because post sales the printers have to run efficiently. So, though our competitors are multinational, they have their strong players, we still are able to break some accounts, and over the last two years definitely much more than we were doing previously. Sometime also, anti-incumbency so I hope everything right, you tend to lose customers. So, maybe that's also in our favor.

Shalabh Agarwal: Sure. So, one of your customers had started, one and a half years back a factory in India. And it's a big factor for them. So, have the product started rolling out, has that change certain dynamics in the market or your price advantage, at least to that one competitor?

Rahul Khettry: Basically, again it's more of a screwdriver technology, like Mr. Shiva keeps mentioning, it's not like the manufacturers of printers, the way Control Print does right from start to the assembly level completely, they probably bring it in knockdown condition and just put in three, four parts together to call it assembly, so we have not seen any particular change in the industry during their supply.

Shalabh Agarwal: Okay. Sir any change or any difference that you can spell out in terms of the feet on street or the number of people or the accounts that you manage because, as you said it's a highly service driven industry. So, in terms of where Control Print, it managed to score better than the other three MNCs?

Rahul Khettry: There was some background noise at our end. Could you just shorten that question and ask, I didn't hear?

Shalabh Agarwal: So, I was asking, is there any advantage that Control Print has in terms of people on the ground, because as you said, it's a highly service driven industry compared to the other three MNCs competitors in India?

Shiva Kabra: So, we've got a very good service network and a faster response time than our competitors. But, I wouldn't say necessarily we would have a big advantage in terms of number of people only. Of course, we have more people because we have our factories here and therefore, we have a good amount of people in manufacturing and so on. But, in terms of our advantage, we've got products and a good team overall, and just about focusing on executing our strategy, with a good set of products, and strong service. And if you're consistent over a period of time, it results.

Shalabh Agarwal: Sure. And sir lastly just quickly, how much non CIJ printers contributed for this quarter for a nine month broadly?

Management: We don't have that split between CIJ and non-CIJ, but total we sold like I mentioned about 2100 printer.

Shalabh Agarwal: No, I am saying in terms of revenue sir broadly?

Management: Revenue, that share is definitely increasing so earlier it was about 13% to 15%. Now it's gone up to about 17%, 18%.

Moderator: Thank you. The next question comes from Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Sir, I have few follow up questions. So, one, just wanted to clarify you said the number of printers that we've sold for this nine months is 2100 am I correct sir?

Management: Yes, right.

Swechha Jain: Okay. And, like you just mentioned non-CIJ share from printers in revenue is increasing, it has increased from 15% to 18%. So, I just wanted to understand what is the advantage over having non-CIJ printers more as compared to CIJ printers, is it that the consumables that is used, is higher in non-CIJ, how does it benefit us?

Management: No. So, what happens is that they're different technologies, and each is best suited for certain applications. So, continuous jet CIJ is the most broad-based technology. Most of the other non-CIJ technologies for example, cannot work across a wide range of applications. But for certain set applications, they are superior to CIJ or specifically more than like you said, more than being anything is what I think is they require less service and customers don't like to rely upon engineers to come in, they don't want to rely on something like that. So, that's a big part of the entire attraction of the non-CIJ products. So, like I said, it is better in certain applications. Consuming wise depends on the application, but in general, the consumption for printer is higher, the services is of course much lower in terms of the service cost. So, we are maybe same amount of overall.

Swechha Jain: Okay, so for us from a strategy perspective, it makes more sense to increase our share in the non-CIJ kind of printers, right. Directionally how does it work for us?

Management: Focus on that it depends on the application. So, suppose printing on the pharmaceutical industry, the Thermal Inkjet is best suited for that, if I'm printing on biscuit lines then thermal transfer over printers are best suited for that, if I'm printing on a certain automotive component, which I need to track them in five years down the line, all laser printers were suited for that. And if I want to print on a wide range of products, Continuous Ink Jet Printer is best suited for that. Printing on cement bags, the drop on demand printers. So, it just depends so much on the application, so what I'd say is that we will not covering all the applications very well with the best of technology for that specific application. So, it's like saying there's a pickup truck, so pickup truck has its own use even if it's not the biggest part of the market, but it does something better than a MUV, that does something better than a passenger car, so that's how it is.

Swechha Jain: Okay. So, just wanted to clarify, you mentioned that we did a 4.5 to 5 crores of CAPEX till now in this year, and that is on the printer side. I kind of missed that part actually?

Management: It's in our Nalagarh factory so you can say it is on the printer side.

Swechha Jain: Okay. And sir, in the last call we had kind of give a broad guidance that at some point in time we can reach kind of 300 or 400 crore kind of a revenue as the industry expands towards 2,500 crores, so just wanted to understand if you could just broadly give some guidance as to do you think this 300, 400 crores of revenue can be achieved by us, like say after five years from now?

Management: Swechha we are definitely working towards that, this time if we get 20% increase will be close to about 250 and then post that we will target 350, 400 so yes again the market has to supportas well as, so we are all geared up we have the product range we have the finances, and the team on the ground. Things are positive but of course we need some external support to reach that level. I think it's possible.

Moderator: Thank you. The next question comes from Saket Kapoor with Kapoor Co. Please go ahead.

Saket Kapoor: Sir, first about the new launches and about our technology partner coming up with the internet of things, the internet enabled printers where are we sir on that front sir?

Management: So, basically yes, the new printer is ready, it's just that we have to arrange the parts and the board, hopefully in the beginning of next financial year we should launch our new printer we are working on it as of now.

Saket Kapoor: And sir those will be to a specific industry or the entire industry we are servicing sir?

Management: No, it will be basically a CIJ printer will be the new launch, newer version of the CIJ printer. And wherever, whichever industry it is going to be utilized, it will be available.

Saket Kapoor: Okay. And what kind of price differences will it come up sir, because of this new features?

Management: We will work out the modalities when we launch it with our marketing team.

Saket Kapoor: Okay sir. And we also thank the board for the interim dividend of Rs.4, and sir what is the current cash on the books and what is the current size of our investment portfolio?

Management: Let's wait for the Balance Sheet for March 2022, Saket once it is available to everybody.

Saket Kapoor: Okay, I just thought just to get a ballpark number, how much cash is there that required?

Management: We are quite debt free so not much the cash side. But we will wait for March to declare all the figures.

Saket Kapoor: Okay. And sir we had some issues with the cement players the red ink and the black part also on the bag. So, what kind of revenues are we now catering from the cement player and any changes on the front?

Management: Like I mentioned in my opening remarks last two, three quarters we've seen a good momentum of the LCP business, some of the cement customers which we had lost were also coming back with contracts for three years. So, things are more on a positive note, the margin is tight but we are trying to revise the market on the revenue side. So, we are gaining some lost customers and definitely it's on the up, last three quarters we've gained business.

Saket Kapoor: Okay. And on the new customer addition sir, any new industry or vertical that we have added or have we strengthen our presence more in the dairy segment, earlier we did put strong on, one big order from Gujarat government co-operative for dairy business?

Management: It is dairy did for us as well as there is good focus and traction from wood and foam industry. So, these are also picking up very fast so certain sectors, we are seeing a good traction. Even on the FMCG side, some good customers are purchased from us and that can go into multiple printers. So, we've been able to see some breakthrough in a couple of their factories. And if we perform well we can probably expand to other factories and these are our competitors account so they are quite bullish over the next few quarters.

Saket Kapoor: FMCG you said, I overheard you?

Management: Yes, FMCG.

Saket Kapoor: And lastly sir, just with the depreciation part sir, out of the total depreciation of 11 crore for the nine months how much would we attributable to the Mask segment?

Management: Mask we've taken an aggressive depreciation policy so that the investments are quickly recovered.

Saket Kapoor: Okay, and we are done with it, by this year it will be totally depreciated the maximum portion will come out of the 10 crore investment so 5.5 to 6 is done to this year?

Management: Maximum has been done, but by about within this final calendar year we will be able to complete the Mask depreciation.

Saket Kapoor: By 2022 calendar year?

Management: Yes.

Moderator: Thank you. The next question comes from the line of Karan Bhatelia from Asian Markets Securities. Please go ahead.

Karan Bhatelia: Sir, we've seen a strong improvement on the working capital side. So, your comments would be very helpful.

Management: Like we always, there was a concern of the investors and analysts on the working capital being on the higher side and we always mentioned that we do need a minimum amount of inventory to service our printers which are in the market. Even some of the obsolete printers, which we are not manufacturing but they are present in the market need certain spare parts which need to be available in our inventory. So, that was the reason previously we were carrying higher inventory and if you will notice that the inventory is not increasing in line with revenue. So, we are getting that advantage that we always knew with higher revenues we will be able to hold on to inventory. So, that's one of the major gains that we are seeing. And hopefully that can further improve by 10, 15 days. Talking about the launch of a new version of printer. So, again, maybe we'll have to see how that plays out. New parts will have to be in the inventory don't see a full-fledged production of the new version of printers and the old version is not completely, the stock is produced and put out in the market. So, transition period, maybe there will be some overlap of parts and there might be a few crores of increase in inventory. But we'll see as it comes, as of now it feels that we can pull back some more 10 to 15 days. And even on the receivable side. We have a good team now we're controlling is centralized from Mumbai. Earlier, it was more at the branch level and maybe now that they were running a tighter ship, and we've been able to pull that some days on the receivable.

Karan Bhatelia: Great. That's it from my end, any follow ups from any of the participants? I don't think there are any follow ups. Thank you Rahul, thank you Shiva for giving AMSEC the opportunity to host the concall, any closing remarks you want to make?

Management: Thank everyone for participating it's a very busy day today and the way things worked out. We were pulling things would be a little bit earlier in the week. But there were some delays and definitely looking forward to all of you guys remain safe and interact with all of you again, customers before our next meeting and the next set of results. Thanks.

Management: Thanks to everyone. Please be safe and healthy.

Karan Bhatelia: Thank you. With this we end the conference call. Thank you participants for logging in to the call.

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

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