“Control Print Ltd. Q4FY22 Earning Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY'22 Earning Conference Call of Control Print hosted by Asian Markets Securities Limited.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance, and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etc., whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks.

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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bhatelia, Asian Markets Securities Limited. Thank you and over to you Mr. Bhatelia.

Karan Bhatelia: Ladies and gentlemen, good afternoon and welcome all to the Control Point Limited's Q4 & FY'22 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 shall now hand over the call to Mr. Rahul for his opening remarks, post which we shall begin the Q&A session. Over to you, Rahul. Thank you.

Rahul Khettry: Thank you, Karan. Welcome everyone to the fourth quarter. Financial year '22 Earning Conference Call of Control Print. Apologize for the rescheduling of the previous call which had to be postponed due to unforeseen circumstances. We appreciate your 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 joins me on this call.

The detailed presentation has already been put up on the website as well as intimated to the stock exchange.

Let me give a Brief Analysis of the Financials for Q4 Financial Year '21-22. Manufacturing activities in Q4 maintained a good momentum and most of the industries increased their production to meet the high demand. The increased production was clearly visible in the higher requirement for consumables, which brought back the smile to Coding and Marking industry. The last couple of years have seen extraordinary situations when the strength of the company is tested. And we can 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 the unforeseen challenges.

The stability of Control Print has also been reaffirmed by credit rating agency, CRISIL with an 'A'-rating after considering the short and medium term impact of the COVID pandemic. Our investors can maintain their belief on the company's management for an optimistic future.

This quarter and annual performance delivered the best ever results for Control Print. There was all round growth in revenue, in margins and volume growth. These are encouraging signs and the momentum should continue through the next financial year.

Revenue for the quarter and annual was highest ever at Rs.75.56 crores for the quarter and Rs.254.26 crores for the year. The year-on-year growth in revenue is 23.7% and for 12-months growth is 24.8%. The reason for growth in revenue was due to good traction in consumables as the industrial production increased, though we believe it is still not at the optimum level and there is scope of improvement.

The production of some of the industries was lower due to raw material shortages, as there is still scope of growth in the overall production volumes. The gross margins were dented across industries due to increase in material prices of components, especially electronics, chemicals and solvents. Active installed base crossed 15,000 mark which is steadily increasing to grow the business in the coming year.

Profit before exceptional item increased 19.8% year-on-year and increased 26.3% for 12-months. Profit before tax increased by 19.7% year-on-year and 41.7% for 12-months.

EBITDA increased 27.1% year-on-year and 24.5% for 12 months. We should continue to maintain EBITDA margins north of 24% on a long-term sustainable basis. PAT increased 21.6% year-on-year and 40.3% for 12-months. EPS increased to Rs.25.25 from Rs.18.00, which is up 40.27%. Working Capital days improved by 31-days this financial year due to better inventory management and receivables recovery. The company maintains healthy margins with profit before exceptional items at 20.4% and EBITDA at 25.8% with scope of improvement due to better product mix and higher revenue triggering economies of scale.

Let me brief you on the Performance of Various Division Products and Business Segments. Printers and Consumables had a positive demand and the increased installed base will drive the business in the coming quarter.

The company strengthened its market share in the building materials segment, dairy and food sector witnessed continuous growth, strengthening and growth. The Pharmaceuticals segment witnessed increasing customer penetration wins in competitor accounts and focus to scale up in this industry.

The SCP division witnessed 12-months growth of 17% as the production of the customers was increasing. The growth was mainly due to improved production of some of the industries where we have a stronghold like dairy healthcare, steel and metals, food, FMCG pipes, cables and wire, distillery, agrochemicals. And was also encouraging to see growth in some of the upcoming sectors like pharma, paints, wood.

Product verticals of TIJ, TTO highlight. Continue to have a strong growth and these products are well accepted by the market. We have dedicated managers and team to drive these verticals with focus on dairy, beverages, biscuits, frozen food, ready-to-eat, pharma, packaging, plywood, lubricants, 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 has been improved and a new team is driving the business. This has yielded good dividend as a positive response from the customers and new opportunities expected in the coming quarter. Service revenue has shown good growth in value term, which contributes towards profitability.

As strategy for separate verticals for key account and OEM business, our focused approach is showing encouraging results and should yield good quantum of business.

SCP business reported good growth for the financial year with revival in some cement accounts and pan India supplies in sugar industry. We are changing our focus to non-SCP business with some new applications and the team is confident of generating business in the coming quarters.

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

Customers especially large business organizations are looking for coding and marking solution so as to avoid counterfeiting of their products. We are offering complete solution, including availability of our in-house software development team to provide tailor-made solutions as per our customers' expectations.

To intensify our reach to the customers, we are strengthening 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.

This year, we have performed well in every quarter which shows a sustainable growth trend, and the momentum is expected to continue for the next financial year with similar trend of growth trajectory, Fundamentally and inherently, the company remains strong, and we are focused on our plans and strategies as we are confident of the growth potential to deliver positive results.

The floor is now open for questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Mr. Kaushik Mohan from Moat Financial. Please go ahead.

Kaushik Mohan: In past five years, I'm seeing a line item called as exceptional item or extraordinary item on your P&L. Can you please explain this? Yes, every time I've seen from past five or six years, I'm seeing this exceptional items in your P&L.

Rahul Khettry: In the last two years, it is a very negligible amount, even in the current quarter, it is only 26,000, the previous quarter it was 11,000, before that is 97,000 -

Kaushik Mohan: I agree with that, but why these entries altogether come in because as a percentage of whatever the revenue… I'm very new for your business to understand, so I didn't understand what this line item is all meaning about as well as when I go to the notes to accounts also, I am not understanding properly like I've seen your note to accounts profit of sale of an investment or something like this?

Rahul Khettry: In note #5, we've specific ally explained the exceptional items, it includes 0.26 lakh for the quarter and 1 lakh for the full year towards changes in fair value profit and loss from sale of units in mutual funds, routed through P&L. This is a negligible amount which we put in mutual fund and that is coming. And this entry for the year of Rs.315 lakhs which was a sale of our Vasai property which we had declared I think in the first or the second quarter. That was an asset sale. So it came as exceptional item. I don't think there is any other item which is of concern.

Kaushik Mohan: Sir, I just wanted to understand on the business dynamics. So now, currently, according to my understanding there is some growth values in the Control Print business. So as a management, what is your guidance on to the future numbers, if not the numbers at least the growth meaning how is the business panning out?

Shiva Kabra: Actually, very difficult to hear you clearly. Say it again please.

Kaushik Mohan: So, as per your business growth, what is your business growth drivers for coming years? And like what are you concentrating more on?

Shiva Kabra: I mean, we don't really provide that type of guidance in all honesty, but, obviously, especially after this whole COVID incident, it's been difficult to answer, then in the last few months including the current period, we're really struggling with supplies for raw material, especially the semiconductors, our chips are in shortage and we're really struggling for it, paying a lot more. So it's difficult to say, but I think, obviously as the market grows, we've always maintained that we will grow at double of GDP on industrial production. So, the idea would be to grow consistently, and obviously, to some extent, we depend on the overall consumption in the market. There is a latent amount of things which are not being printed, and that's additional boost for us, but the volume growth is going to come from you the consumption growth. So, if that's maintained, this is all good bounce back after this whole COVID shambles and all of that, but if we maintain certainly we can do well. Our product portfolio is strong. We think if the market is growing like 1, 1.5x GDP in industrial production and we should be to grow about twice of that. So, I think if the GDP grows like 7%, industrial production will be more, manufacturing growth, then we should be able to do about 15% So, that's an approximate thing you can take, but then, it's going to depend on the overall economic growth to that extent. So, if the economy goes up at 7% to 8%, then we should do 14%, 15% like that.

Moderator: The next question is from the line of Madhuchanda Dey from MC Pro. Please go ahead.

Madhuchanda Dey: I have a couple of questions. The first is, you mentioned about an install base of 15,000 now. So, can we assume that on an average consumption of 1 to 1.2 lakhs per annum or is that a wrong assumption?

Rahul Khettry: So, roughly, that's a trend assuming that the productions of the customers are normal. In a COVID year, it definitely was lower, but in a normal year, your assumption is correct. Earlier we had only the TIJ printers. Now, we have the TIJ, TTO also, some printers are higher and some are lower in the consumption. But yes, the CIJ at 1, 1.2 lakh per printer is definitely –

Madhuchanda Dey: What about the new ones?

Rahul Khettry: New ones are slightly lower. So they could be as much between 80,000 to a lakh or something. But since they more new in the market, the customers are also increasing the usage, we think that this will also give good revenues. But as of now, it's slightly lower than TIJ.

Madhuchanda Dey: Normally you share the breakup of the number of printers sold and the breakup between the new printers and the TIJ consumables, etc., Will it be possible to share it for the quarter and for the year?

Rahul Khettry: Yes, sure, I do share that all the time. So in this quarter, our printers is about 18% to 19%, consumables share of revenue would be 51% to 52%, spares and service together about 22% to 23%, and balance is for the Mask.

Madhuchanda Dey: In terms of numbers, whether number of printers sold and the breakup between the TIJ and the new age printers?

Rahul Khettry: Generally, we give the total number of printers sold, this financial year we sold 3,025 printer and we crossed 3,000 mark for the first time.

Madhuchanda Dey: The new products that TIJ, TTO?

Rahul Khettry: This is combined. So we don't give the breakup. The combined is about 3,000-plus printer for the FY and in Q4 we've done about 900 printers.

Madhuchanda Dey: When you were mentioning pharma, you said that there was some market share gains also. So overall, if you look at the FY'22 gone, if you have done, say, 24% kind of a top line, what would be approximately attributable to the market share gains and where is your market share at this point in time?

Rahul Khettry: Market share, because the industry reports are not very easily available, we need to see the release of financials of our competitors, especially the larger ones which are filing, then only we will be able to give more details on how the industry has grown. But I think when we hear from our field staff and the momentum that Control Print is growing at 20%-plus, we feel that we would have gained market share, but we'll have to wait for our competitors to find the results.

Madhuchanda Dey: Obviously, there's a direct linkage with the manufacturing activity. But the top line growth could also be propelled by market share gains, if that is a trend that you're witnessing, right?

Rahul Khettry: We feel that there would be market share gain, because we've opened up more industries, the product range has increased, and we are able to penetrate into competitor accounts. So we would like to see market share increase once the results of other companies are available.

Madhuchanda Dey: Is there a pricing advantage of Control Print vis-à-vis the large two MNC competition?

Rahul Khettry: We are competitive. We don't really undercard or try to gain market share through pricing. But yes, technology, service and being competitive is definitely one of our forte. I think Control Print has always maintained that service is our strength and we reach that out to our customers and try to give them the maximum uptime. And that's what is building the confidence on our customers. Of course, price has to be competitive in the Indian market, but that's not our only advantage.

Shiva Kabra: I will just repeat exactly what Rahul is saying. I think overall our pricing is not cheaper than our competitors. The idea is to be at the same level. Case-to-case sometimes they are cheaper, sometimes we are cheaper, of course, depending on the deal-to-deal. But overall, average price levels, the idea is to be in the same level as the leading competitors. We offer better value, because we think our technology and our product range is better. And of course, we have the best service network and good logistics in place for sure. So, that's more what we are focusing on offering the customer. Price wise, we don't really under cut.

Madhuchanda Dey: I also had a question about, as you step into FY'23, what are the main concern, worries, challenges that you have?

Shiva Kabra: Right now, of course, key issue for sure is that we are having a massive amount of issues with the supply of our chips and semiconductors, so, we are having a lot of production related issues. And we have bought a lot of things from the spot market at a much higher price in the last quarter and this is continuing. So this is definitely affecting us, it's slowing down the entire logistics chain for us and the manufacturing is being affected of the printers. It has increased our lead times to supply the printers from x-stock to definitely like a few weeks at least. It doesn't look like this thing is easing up anytime soon for us. So, this is definitely an area of concern. This is what I will say an area of concern in the coming year. But otherwise, I think we're okay. But yes, this has to be resolved somehow.

Madhuchanda Dey: I'm just picking your brain on this. From a medium to long term perspective, is there any technological disruption possible that could weaken the investment case for a company like yours?

Shiva Kabra: I think obviously biggest risk to me is the statutory risk. The government can always change laws. Like, 50% to 60% of the customers are printing because of the government regulations, because you require the date code, the batch code and all the other stuff. Of course, if the government regulations change, and require the less ink but we don't think that will be changing, but at the end of the day, that's been a big driver going forward, increased traceability requirements and increase inventory. But yes, technically, it can happen. Technology wise, I don't see any issue, because I think that people always want to see this type of information on their packs and we cover all the major technology which are applied. So like you said whether it's a TIJ or TTO or laser or Thermal Jet or TJO, whatever, you need to buy from one of us or something. Where you own a SUV or a passenger car or a utility vehicle, the thing is you need a car for transport and we are there for that.

Moderator: Next question is from Dipen Shankar from Trust Line PMS. Please go ahead.

Dipen Shankar: Rahul ji, first of all, I want to understand this contribution of the segment for a full year printer, consumables and other segments?

Rahul Khettry: For full year, percentage is quite similar as well as Q4, I'll be honest, I have the figures, no variation.

Dipen Shankar: In terms of printer capacity utilization, what is the rate currently now?

Rahul Khettry: Printers, right now, we are at about 80% to 85%, but like Shiva mentioned that chips is the main concern right now. If we can get all the parts availability, we can ramp up the production even more, because it's more of an assembly plant, and we don't see that as a major bottleneck. So, going forward, even if more printers are required in any particular year, we can surely ramp up our shift production.

Dipen Shankar: In terms of non-TIJ contribution, so, what is that for full year?

Rahul Khettry: Non-TIJ is definitely increasing. Earlier, it was in single digit. Now, it has definitely crossed. I'm talking about the new product, that is big TIJ, TTO and Hi-Res, but if completely non-TIJ you're talking about, then it will be about 30% to 35% in that range.

Dipen Shankar: So how is our segment penetration improving in this food and beverages segment where these MNCs had a really good hold, right, So are we able to penetrate now better in this food and beverages segment?

Shiva Kabra: To some extent, in one or two segments, like dairy, pharmaceutical, we've been focusing more, not across the board. But I'll say like in the last two years, we struggled a lot because of COVID. It's not been easy to meet customers. So people have been focusing more on the existing things. We have gained a good amount of business from specific customers who have had larger requirements. But yes, We're definitely improving industry mix from the FMCG segment as a whole; food, beverage, pharma and consumer package goods. Two, three segments where we've got a good gain. Now we're going on to solution providing going forward. So we'll see how that pans out for us.

Dipen Shankar: So now, economy being back in action and more production is happening, so, do we expect consumables contribution increasing over next two to three years?

Shiva Kabra: Like I said, overall growth, we are targeting about two times manufacturing growth, you can take it as industrial production or GDP like, substitutes for that. So, obviously, in the end the consumers all depends on the production, I cannot predict, obviously, if people adding more lines and more capacity, or they're selling more, then they will print more. So, like a dependent thing, nothing we can control, because once I give the printer to someone, then it depends on how much he's producing, for us print basis, like, we get quantum of ink. So it all depends, but, assuming the consumption increases, then production will increase. If production increases, then definitely they will print more. And we'll also get the advantage of printing on some applications, which maybe were not being printed before. So, that's a continuous increase there.

Moderator: Next question is from Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: As could be seen that we have posted the highest revenue on a quarterly basis and also on a yearly basis, so, we are now two-third into the first quarter. So, was it a seasonality effect for the March quarter or the momentum still continues, since the base has now increased and it is now the consumables that will be driving our profitability going forward?

Rahul Khettry: Of course, April is sometimes subdued month because people have probably overworked in March. So, I think overall Q1 should be fine, it should not be a concern, but Q1 has always been good for us historically, and we see that the momentum of Q4 is also going to continue in Q1.

Saket Kapoor: Sir, on the consumable part, what should be our utilization level?

Rahul Khettry: Again, volume growth is there in consumable. So now, we are 50% to 55% is where we are right now. We were earlier less than 50%, now we've crossed 50%. We have enough capacity for the next couple of years.

Saket Kapoor: About the Mask division, what would be the business plan currently? We have completely depreciated the asset for this year and what's the roadmap ahead?

Rahul Khettry: Mask, obviously is dependent on the Covid wave. So, we hope that there is no more wave because coding and marking is more important to us than the Mask division and that is not something that we would focus on. Depreciation, yes, by the end of the year, most of the machinery should get depreciated. So, Mask will not be the driving force in this financial year for sure. Though, on a long term basis, we already have the FDA approval and once things are more normal globally, we will see if we can look for some good export opportunities for Mask, but as of now the focus will remain on the Coding and Marking.

Saket Kapoor: But still sir, it is operating at optimum level, the type of turnover, the percentage mix will remain the same for this year also?

Rahul Khettry: Definitely, Coding will be higher. Mask will not be at the same level as last year.

Saket Kapoor: About the introduction of this new printer, I think two of them were introduced also and we were also planning for a new model of internet of things pertaining to that. So, where are we in midst of that launch?

Rahul Khettry: To be honest, this was supposed to be launched towards the end of the last financial year. But like Mr. Shiva mentioned, globally the challenges of chip and conductors is affecting us also, and our partners in Germany. So the suppliers who have confirmed orders are defaulting and delaying the supplies. So we have already geared up, we've all purchased most of the components for the new launch of the printer, the training has been given to our factory in Nalagarh, and we're just hoping that we will be able to source the board quickly, and once that is done, we should be able to launch, next month or the month after that, hopefully, we will be giving some announcements on the launch of the printer.

Saket Kapoor: To which specific industry, will the printers be aligned?

Rahul Khettry: This will be our new CIJ printer. Now the technology is changing, so, the old printer will get replaced by this new printer. Industry will be the same but the customers will get higher end printer with more applications and more things like, Industry 4.0 and IoT, those niche applications will be there in this printer.

Saket Kapoor: Price point?

Rahul Khettry: It will remain the same, applications will be same, but they will get more features in the printer.

Saket Kapoor: Price point also, it will be significantly higher than what the selling price, what will be the --?

Rahul Khettry: When we launch the printer, then we will take a call on price strategy.

Saket Kapoor: Two P&L items. This quarter, we have booked other income of Rs.1.57 crores and employee benefit expenses have gone up quarter-on-quarter, also year-on-year. So is it the employee benefit contribution towards profit percentage or anything else?

Rahul Khettry: The other income is basically the dividend income which we receive on our investment portfolio. And employee cost benefit, we need to keep our employees and their incentive also, because sales are increasing, so incentives are being distributed more as well as we need to have a bench strength for our future business. So at this level, I think it will continue.

Saket Kapoor: So, we can look at a quarterly run rate of Rs.15 crores?

Rahul Khettry: Around that or slightly lower. But if you see as a percentage, it is coming down; what we were two years back around 20 to 21%, now we're down to about 19%, to 19.5%. So with the increase of sales, I think we'll be able to absorb these employee benefits better. But it's required because it's a 750 plus team now, we have to retain the employee and they are important for our business.

Saket Kapoor: The last two points. First, Innovative acquisition which we have done, how are things going ahead there? On the Sri Lankan write-off part?

Rahul Khettry: Innovative is a new company. So they really grown in the last year after Control Print came in. And we had our recent board meeting and we are quite optimistic. this financial year also we'll see it grow to 3x, we are quite confident because of that business and it will continue to grow for the next few years is what our belief is. That's why we invested in Innovative. So though it is not significant to our balance sheet size right now, but maybe a couple of years down the line, it will be a good contributor. We're quite confident of Innovative. Sri Lanka you know the country, the economy, the political scenario, everything is under such a turmoil and there to be honest no visibility going forward, how they're going to come out of this situation, considering that the board has decided that we should try to wind up the operations and see what regulatory requirements are there in that country. So that process, we will be taking up in the next couple of months.

Saket Kapoor: What has been our investment?

Rahul Khettry: Like I said, we need to ascertain all the details regarding how much is the inventory there, how much is the receivable. In last few months, we have certain funds which are lying in our current account in Sri Lankan rupees. Even though I personally visited the bank a couple of months back, the bankers are not able to transfer it to India in US dollars, because, their biggest challenge is the foreign currency is not available. So we have to ascertain everything and then see how to wind it up. It's only last week that the board has given the go-ahead. So give us some time to work out.

Saket Kapoor: Yes, that is very correct sir, but just wanted to understand what percentage of business have we done for last year then from the Sri Lankan, is it any substantial or --?

Rahul Khettry: No, I don't think, it's not been substantial, which will affect the Indian balance sheet.

Saket Kapoor: Thank you for the answer and all the best to the team. I hope the momentum continues. For plant visit also sir, if things could be coordinated for the investors –

Rahul Khettry: We will let you know that. Thank you for your good wishes.

Moderator: Next question is from Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat: Bunch of questions. So your printer sales in FY'22, they're just up about 2% on a YoY basis, Rs.2,500 this year versus Rs.2,952 last year?

Rahul Khettry: Printer sales in volume term, I actually have it for the quarter, it was about 8% to be honest. If you take only the new printers like we have new and buyback, the new printers have grown about 7%. So that is encouraging because the customers are still buying the new printers. As of now, to be honest, the situation is on our side that we have a backlog like Mr. Shiva mentioned that the chips are in shortage, so, if this would have definitely been higher, we could have done maybe a few more printers and the percentage would have been higher.

Devanshu Sampat: So this would essentially be an industry-wide issue, right? So would you have lost market share over here or would you have gained or how do --?

Rahul Khettry: We've not had anything major as of now. Of course there is shortage across our competitors also. We've not cancelled any order or lost anything, it's just that there is the backlog, earlier we were supplying the printers faster once we receive the order, now there is a slight backlog, which has not led to cancellation.

Shiva Kabra: Right now, impact is more on the cost because for the last few months we've been paying a lot more money for our parts, because we have to source it from the spot market to continue production and the situation honestly has only been getting worse. So the types of backlog that are there right now from the orders if you already win like even long ago is unacceptable. Yes, we are managing by paying a price, but it's obviously not…..

Devanshu Sampat: How do you define installed base like 15,000 printers that you were saying we have installed base?

Rahul Khettry: We take it more on the active printers, customers who are buying consumables or doing some service. We are in touch with them over the years. So that's what we call active installed base. All over the years is much more than 15,000, but like we always mentioned that you do lose some customers, some printers go out of operation, more or less we feel that about 15,000 printers would be active with our customers.

Devanshu Sampat: Can you give us a sense on what your printer numbers could have been if you would have been able to sell if there was no shortage of semiconductor?

Rahul Khettry: It's not a major backlog, but we could have added another maybe 75 printers in the March figure. To clarify, the shortage is mostly on the CIJ printers, it's not like all our printers are in shortage, it's the CIJ that is our main focus all the time, but all the other range of printers, we are still able to supply, there is no great shortage.

Devanshu Sampat: In your cash flow statement, there's a profit on sale of 3.13 crores. Can you let me know that is concerned with?

Rahul Khettry: In Q1, we had mentioned it. Our site property in Maharashtra that is the one which we sell out, but then we were not doing anything concrete there, so we liquidated that.

Devanshu Sampat: Congrats to the team for bringing the inventory levels below 100, which has been a long request and I think a pressing point for the company as well. But you have also been mentioning that there will come a point after which inventory levels, we won't need a higher level of inventory. So, would it be fair to say that the Rs.65, 70 crores range is a good number to work with as inventory levels in absolute terms going ahead?

Rahul Khettry: I think so. These are sustainable inventory. I would have said that this can come down a little more, but considering the current situation where we are transiting from one printer to the other, and there is shortages, like I mentioned, we bought the part for the new printer, but we just don't have the board. So inventory has gone up by a few crores which if we had the board, maybe that would have been sold out. I think definitely should not cross 70, 65, 70 is a good range. But once the new printer is launched and things are more stable, this can be worked on. So if you take the number of days of sales, with sales increasing, this should continuously come down. We always mentioned that we had to maintain critical spares which don't need to be added all the time, so that is giving us dividends now.

Devanshu Sampat: Once these problems are resolved, you're saying another Rs.5, Rs.10 crores inventory, we can still release over a two-year, three-year period?

Rahul Khettry: Yes, I feel so. Again, all depends on what phase is at that level. I think now it is at a much more optimum level than it was a few years ago.

Devanshu Sampat: Any plan for CAPEX for the year?

Shiva Kabra: Just like maintaining things I think.

Devanshu Sampat: I have raised this question a bunch of times in the past. So, in one of the calls, Mr. Kabra also had assured that whenever there is no cash requirement, we will definitely pay it out and the payout ratio… of course the dividend has increased in absolute terms but the payout ratio has come down to about 37% from about 40%, 45% levels in the last two years, and of course, the cash is piling up. So what is the management or the board view on this in terms of the reason for a low payout and managing the cash allocation, basically, if you can just give a sense on that?

Shiva Kabra: Right now, it's just a matter of having more firepower available in case there are options available for inorganic growth is what I'd say, maybe potentially larger investment opportunity. So, as you said, we are doing well and we focus on our core business, and we're looking more at getting to more solution-driven, integrated solutions is what we were looking at providing around coding and marking base and maybe also looking at certain opportunities in closely allied businesses. So I think that was the main reason. But, of course, if we don't find that right type of opportunity there, either we will reward the shareholder, I will expand the business fast, expand the right opportunity, if it is a right type of risk/reward profile, of course, we will return the money in terms of buyback or dividend or some sort of.

Devanshu Sampat: In terms of time limit that we should essentially wait for till you can announce something to do with this?

Shiva Kabra: I don't think there is anything specific. It has been discussed in the past, but I do think that if there is nothing that happens in the current financial year, then I'm sure we'll do something towards the back end of this year or the next financial year. We're generating cash and we're paying dividends. So, we are seeing what's there. Like I said, if we don’t see anything concrete, then we will definitely look at not holding too much cash beyond what is needed, but I can't give you the exact specific numbers. That's something we will discuss with the board and we will get back to you. I do say that we do have the AGM scheduled most likely in July and that's definitely a time where any person can also raise this question with the entire board post Q1 Results and all probably we will check with the board as well.

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

Shalabh Agarwal: It was interesting to see some of the marquee names in the FMGC space in the presentation. So, I wanted to check how easy or difficult it is to make in-roads into these companies because traditionally these companies have been served by more MNC vendors. I am talking about Lever, ITC or Marico, some of these names that figured in your presentation.

Shiva Kabra: So, I don’t think that the issue for us has been there. We have been in a lot of consumer goods companies, Unilever, Marico, Emami, so we've actually been supplying a lot of consumer goods, life care, homecare companies. We've traditionally been weaker in the food and beverage space rather than these 2 sectors and in pharmaceutical also is much less. So, I think the issue is that it's going to require dedicated focus to win more market share from these companies, so there is more effort that has to be made. There is no doubt. It's definitely more work to get a competitor customer than to sell more to your existing customer as compared to a new customer who has not been using anyone. There is no doubt about that, but we have got our strengths and we are focused on explaining those to our competitor customers also and hopefully they see some value in that, but like I said, it's not like our market share gains are not very dynamic in that type of situation, we don't have to go from 18% to 40% of the market or 30% or something. It's a few 1% to 2% a year, so that's the type of situation that's there because once someone has a printer, it has got a life of 7 to 10 years and during that time, unless there's some real major issue, people are not really looking at replacement of that equipment.

Shalabh Agarwal: Some of these major would be having both consumer business as well as they would have presence in the food business where we have a lower presence. So, being present in their consumer division, does that give us a leeway or does that help us to take our foot inside the food division business, which might be a different factory at a different location?

Shiva Kabra: Unilever is the only big one that I know that has consumer and in the food also. That's not a thing. We are printing those things, but that's one customer. I'm talking about overall basis, most companies are like food companies and most companies are beverage company is a beverage company and then most companies are FMCG or personal care company is a personal care company. In personal care, we're actually doing fine traditionally, but we have not been as successful in food and beverage and pharmaceuticals. So, we are working on increasing our market share. We have got some penetration, but like you said, it's from a low base so it will take time to build up. We are not looking at it as a one-year thing. We are looking at this over a 3-to-5-year horizon.

Shalabh Agarwal: In replying to one of the earlier questions, you said that we may be a launching the upgraded version of our CIJ with internet upgrade, so when we launch an updated printer, how does it work? The customers buy or we have to buy back their earlier printers? How does that work?

Shiva Kabra: Normally, when we launch a new printer, generally it has some advantages or some improvements over the existing printers. So, there might be some differences also in terms of like a different ink bottle for example or ink system. It might not work exactly with the old printer. So, it might be different ink series. So, then each customer will decide whether you want to continue with the older printer generation or the new printer generation and the tendency is normally people purchase this when they have new requirements and at the point when they have new requirements, that's when they tend to purchase the new printer and slowly migrate over a few years from the current generation to the new generation. So, people are not going to like, I have launched a new printer and I have 18 printers and I am going to replace them all with the new printer, that's not the way it works. They will go for a phased replacement. They have requirement of 2 to 3 new lines. They will buy printer, they will evaluate it slowly, as they feel the older generation of printers are aging, they might slowly phase them out and replace with the newer printers. So, it is not like a wholesale replacement for sure.

Shalabh Agarwal: When the older printers are replaced, so these printers, do we buy them back or they are scrapped, how does that work?

Shiva Kabra: Largely, they are scraped. What happens is most companies, it's their assets, so we are not really that interested in taking our old printers and doing any R&D on it because a lot of hydraulics and this thing is difficult to recycle. You have to make an entirely new set of parts for that.

Participant: We don't really buyback anything?

Shiva Kabra: So, the tendency is more like you buy new equipment, you have the old equipment, and sometimes if you want to offer a little bit discount, you do in the form of buyback or something, but the basic focus is more on, you want a new printer, you buy the new printer and what you do with the old printer is your wish. Little bit more pressure on that now because of recyclability and all that. So, we're working more with our customers in offering them solutions for how to recycle their electronic waste. So, we are doing that also. So, we are working on that part actively.

Moderator: Thank you. The next question is from Rupen Masalia from RN Associate. Please go ahead.

Rupen Masalia: I just want your view on total market opportunities. I guess currently it is around Rs. 1400 to Rs. 1500 crores, so is there a scope to venture into some adjacent categories like tracking and tracing the technology or may be some other vertical or may be throw some inorganic route, so just want to know your view on this?

Shiva Kabra: So, we are definitely working down the solutions path and we worked some concrete plans in place. We already offer track and trace solutions. So, right now, it is mainly being used by the pharmaceutical industry. We feel there are opportunities also outside of the pharmaceutical industry in coming times. We are already offering that, but what we want to do is make that more of a solution platform and we have got a few other solution platforms that we are working on. On top of that, of course, traceability and of course anti-counterfeiting and these are big issues for companies, branding and stuff like that. So, we are working on specific solutions base for the customer, but as far as inorganic opportunities go and organic opportunities, we are looking at that, there are a lot of adjacencies where we are because we are right in the cross between the digital printing industry and the packaging industry. So, there are many different areas where we can go at. So, we are trying to understand what are the things we can do. We are definitely going to go deeper into the printing part of things and we are also looking at getting more into the integrated solutions part where our printers are one of the key technologies used for delivering specific solutions to customers like anti-counterfeiting, like traceability and track and trace, inventory control, logistics management and stuff like that. It's a bit of a journey that we have to take to get to that level because it is a change of mentality from a product box selling company to solutions based approach without losing the core focus that we are having in the current market. So, it's going to be a transition.

Rupen Masalia: Sir, in the medium term, that is over the next 3 to 5 years where do you see the overall opportunity size, let us presume that you venture out successfully in few of the adjacencies, so over next 3 to 5 years, do you see this size from Rs. 1,500 crores to 1.5x or maybe 2x of current opportunity?

Shiva Kabra: Right now what I would say is that the market would grow at about 1x to 1.5x manufacturing growth. So, if GDP is about 7% you can expect the market to grow at 8% to 10% and we should do hopefully faster than the market. That's for the coding and marking business. As far as the other things go, like I said we are doing into, we have started doing some track and trace solutions. Obviously, these are big markets, big solutions, but for us, it's still a new area because traditionally we are providing the entire solution. Traditionally, we've tied up with other people and we've just been providing our printers as part of the solution that they are giving, but the market opportunity is much bigger because we start looking at software opportunities. We start looking automation integration opportunities, we start looking in inventory control, branding, counterfeiting, those are things that directly impact the business in a large way. So, obviously the budgetary amount for those businesses are much larger and then when we are delivering something concrete and making a strong business case for customers in certain areas, then I would like to answer that question at that time. Otherwise, it is just speculation from my part, but definitely strong effort from our side to look into those areas. Like we said, if we successfully move in the market is big, let us prove that we are successful, let us focus on that right now.

Moderator: Thank you. The next question is from Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Last 4 quarters, your gross margins have been declining, can you elaborate what is the sustainable number there and what is the current raw material pricing scenario?

Shiva Kabra: Definitely, like I mentioned, the gross margins are under strain and that you would know that is across industry, it is not only about coding and marking. Commodity prices of everything including electronics, chemicals, solvent have definitely gone up. We have passed on some of the price increase to our customers, but it’s a slow process. We have to first pay our suppliers and always a challenge to get it from customers. So, the process is on. Hopefully, in this financial year, if the price increases are more stable and we are able to get from our customers, you will see the gross margins improving. In a stable period, definitely another 2% to 3% is something we can definitely pull back, but as of now the situation is not stable. Semiconductor market, like Mr. Shiva mentioned, we have to continuously buy on spot market to keep the production running, so that is something which is not in control.

Anurag Patil: We have acquired one Company a couple of quarters ago, so that time you have mentioned, it's more of a lower end of printers that Company manufactures, so can you just tell what was the revenue contribution from that Company this year and if it increases, can it be gross margins because it's a lower end product?

Shiva Kabra: Like I mentioned to one of the earlier questions, right now it is not significant, it's a new Company less than a year that Control Print has invested, but definitely we are happy with the progress that they are making, approaching the customers. Many of our printers are also now installed. Like I said, we are also struggling to supply the printers and the business only comes in when we get consumables on the printers, which are installed similar to what we are talking about now at Control Print. As the install base increases, the consumables start driving the business. So, that is at a very nascent stage. Maybe we will have to give it at least 2 to 3 years before it starts showing on the Control Print balance sheet, but we feel that this year and the next year, they have good growth potential and we are confident that the business will grow.

Moderator: Thank you. The next question is from Karan Bhatelia from Asian Market Securities Private Limited. Please go ahead.

Karan Bhatelia: Just wanted to have some clarity on this, so we have this technological arrangement with KBA Germany, so when is it expiring and when are we up for a re-negotiation?

Rahul Khettry: I think it is valid till December 2026. Post that, we need to again do, but we do have a clause that we can extend it by another 5 years just by a mutual consent. So, we are doing well as partners. We have been there for more than a decade in partnership and I do not see there should be an issue in extending the contract, but we have to see closer to that date.

Karan Bhatelia: And given the fact that the selling price of Indian printers is slightly less compared to the global peers, so going ahead, can we expect better order offtake from KBA Germany for the global markets?

Rahul Khettry: We have geographical restrictions in our contract. So, our focus will be India and the Asian market. They will take care of it.

Karan Bhatelia: Control Print team any closing comments you want to make.

Rahul Khettry: Thank you everybody for joining the call and hope everybody is safe and healthy. The pandemic definitely is not coming back soon hopefully in India at least and we look forward to a prosperous year globally and for Control Print. Thank you, Karan and Chorus for arranging the call.

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

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