



“Control Print Limited  
Q2 FY '23 Earning Conference Call 2022”  
October 21, 2022



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**Moderator:** Ladies and gentlemen, good day and welcome to Control Print Limited Q2 FY23 results conference call hosted by Asian Market 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 the 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, etcetera, 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Karan Bhatelia from Asian Market Securities Limited. Thank you and over to you, Mr. Bhatelia.

**Karan Bhatelia:** Thank you, Tanvi. Ladies and gentlemen, good afternoon and welcome all to the Control Print Limited's Second Quarter and First-half FY '23 Conference Call, hosted by Asian Market Securities Limited. From the management side, we have with us Mr. Shiva Kabra, Joint Managing Director and Mr. Jaideep Barve, the CFO. Now, I'll hand over the call to Jaideep for his opening remarks, post which we should open the floor for Q&A. Thank you. Over to you Jaideep.

**Jaideep Barve:** Thanks, Karan. Welcome everybody to the earnings conference call of the second quarter of financial year 22-23 of Control Print Limited. We appreciate that you have taken the time out of your busy schedule to attend this call. Hope you and your loved ones are safe and healthy. Wish all of you a happy Diwali in advance.

Mr. Shiva Kabra, the Joint Managing Director of our company also joins me on this call. The detailed presentation has already been put up on the website as well as intimated to the stock exchanges. I assume all of you would have the basic information about our company. So, I'm going ahead and giving a brief analysis called the financial statements of the quarter two for FY '22-'23.

The manufacturing activities in this second quarter continued with the rising momentum as most of the industries continued with production to meet their higher demand. The increased production was clearly visible in the higher requirement for consumables, which is beneficial to the coding and marking industry, which Control Print operates in.

The revenue for this quarter has witnessed a year-on-year growth of 10%. The primary reason for the growth in revenue was because of good traction in the consumables which has got a year-on-year growth of 29% in real value terms, as the industrial production has increased.

We still believe that it is still not at the optimum level, and there exists considerable scope for improvement. The sales of printers were slightly on the lower side, and we had a drop of about 14% on of the machines sold as compared to the previous quarter, primarily as a result of raw material shortages. We believe that going forward, we have the right strategies in place to mitigate all the risks in supply chain and there is still a lot of growth in the overall production volume in the printers

The gross margin for Q2 has dropped marginally as compared to the previous quarter, as I explained to you because of the raw material purchases which are at a slightly higher rate. But still, it shows a very good picture as compared to the Q2 of the previous year-on-year. On a year-on-year performance, the EBITDA, PBT, PAT and the profit before exception items have grown by almost 11%, 23.5%, 14%, and 14% respectively. The company maintains healthy margins, with EBITDA at almost 26% in this quarter. We believe that we still can go to considerable levels because of the economies of scale, what we will have in the future.

Let me brief you on the performance of various divisions, products and business segments. Consumables had a good traction and the increased install base, which is greater than INR 15,500 will definitely drive the business in the coming quarters. We continue to penetrate customer competitive accounts in key sectors like pipes, food, dairy, FMCG, sugar, pharma and dairy and our market share has been strengthened now. We have already incorporated a company in Netherlands, which has acquired 75% stake in Mark Print BV through it.

We have got a sufficient amount of business growth in the dairy segment, as well as in the cement segment. Dairy has a vertical has grown by 20% and we expect this trend to continue for the next few years. Piping still continues to be the leading segment for our kind of industry. We have got a robust back office system, we have a good amount of in-house trainings which emphasize to improve the performance of each team member. We have got a good wither System, SAP which backs up our sales, production and inventory numbers.

Recently we have launched a new TIJ product which is called Pench and that has definitely made a positive move in the market. We expect that we will get a good mileage on this account. As regards to the Piping industry, we are expecting good volumes in the Q3, as well as in the sugar industry. The company has got a goods cash flow and we continue with that trend in the next few quarters as well. We are strong in our production segment as well and we focus on plans and strategies and their content of the growth potential to deliver positive results in the future as well.

With this, I open the floor for any questions that they would ask with us.

**Moderator:**

Sir can we begin with a Q&A? Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen you may enter star

and one to ask a question. We will wait for a moment while the question queue assembles. Participants, to ask a question you may enter star and one. First question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

**Saket Kapoor:**

Sir I missed the opening remarks. Pardon me for repetition, sir. But we have seen that margins being lower on Q-on-Q basis, whether the gross margin or the EBITDA margin. So what explains this sequential dip in margin and also what constituted this INR 1 crore other income components?.

**Jaideep Barve:**

Well, the margins have decreased as we have a global crisis in the supply chain y of the raw material components for our kind of industry. So we have to continuously revise our strategies and do the purchasing, in the spot market as well as get into new alternative producers. We believe that these conditions might continue upto February, March. And so the margins may also reduce further down or increase also if we get the strategies based right.

So raw material shortages is the main reason why our gross margins are on slightly lower side. If I may ask Shiva to add further? Shiva, can you add on this?

**Shiva Kabra:**

Yeah. So I think, Jaideep said earlier, of course, Basically we had a drop in printer sales and the primary reason was not demand, it's just that we've not been able address a lot of supply chain issues. This did affect some of our sales in the previous few months and there were some things that we couldn't build within that half. So, there was some backlog in. Hopefully we'll be able to obviously make up completely for it in this second half.

So the printers were sales specifically were affected, even some of the fluids, the billings were slightly lower than also there was some backlog out there also, because we didn't have certain materials. So, we seem to be having sometimes in this given situation or some surprises either in quality or in terms of delivery every so often, which is giving us some supply chain-related troubles – with the first time we've experienced this in the last one to two years.

And because of that also, like I said, because of the global situation, of course, there has been a big increase in costs and prices of some things, especially is electronic components. And we would like I said, we've also purchased a lot of materials from the spot market and that's higher than what our contracted rates are.

So it's going to take some time for that to work entirely through the system because we've taken a conscious decision that we have to keep supplying, even if it's at a higher cost. So, some of the materials we have, some of the inventory we have at a higher cost to us because they've been bought -- purchased from the spot market.

And as when that thing works through the supply chain of ours, then hopefully we should get back to a slightly better margin profile. But it's not a big concern for us either way too much

right now. As long as the growth is there, we get a strong and overall growth of the profitability and margin that we're targeting.

**Saket Kapoor:**

Sir, if we take the breakup of the component from revenue from operations, the gross margin addition or the incremental gross margin is from the consumable segment. So even though, as we as attributed by you, we face problem with selling more printers. How about the consumable sales? And sir, what is the breakup of the revenue part into the number from printers, consumables, and spare business?

**Shiva Kabra:**

I don't know. Jaideep will provide you on whatever basis we provide. We don't give a very detailed breakup on that because of competitive reasons, you understand. But I will say that as far as those things go, we cannot look at it in totality as an individual component or not, because we face price increases across the board or cost increases, in some cases, where the price might not increase that much, we still have to buy things for a much higher price from the market.

So like I said that's affected the overall costs and at the end of the day, we cannot separate the printer business from the consumables or everything else, because we end up losing some of our customers as a result, we are not able to supply them printer.

So the thing is, because of the situation this is a given thing. We are actually undertaking an exercise, going forward to have a price increase to compensate for some of these issues and that's actually one of the things that the company is now working towards in this given quarter. We can see some results in Q4, we see by Q1 next year, it is normally we give our customers like a three to four-month notice before we actually increase the prices, that's something we have just started.

we just have to work one point of time, if some components are not there, we have to pay more money and just buy them let's say.

**Saket Kapoor:**

Sir on the other income part, can you please provide further details that whether it is a recurring item or one-off item? And lastly, I said, as mentioned that these margins are going to be -- can we expect more pressure on margins, as Jaideep sir was explaining earlier going ahead also or the research have been taken?

**Shiva Kabra:**

So I'll Jaideep just explain the other income. But as far as margins growth, we expecting this to be positive. It might take a few months for this high-cost inventory to run through our system, but of course, that would result in some benefits either that of the price increase will compensate. So, I don't think that obviously, we're looking at a permanent margin decrease no doubt about that. We're not doing that.

Over the course of the year, we should be okay, of course on a quarter-over-quarter basis depending on the systems and the supply chain. Sometimes like you said, even if we sell more

printers, the gross margin looks lower even though it's not from an individual component perspective.

So even these things can change, but overall, I think our growth is going to be profitable and cash accretive that's what I can say. But Jaideep, if you want to just conclude that other -- but also, it's just possible Karan, we can just keep one question to one thing because then if this -- what happens, if there are four questions in one question then it really confuses sometimes and then we miss out, that's all. So that's what I'm requesting everyone, it's fine to ask as many questions do you want, but like in that one question, just one point, then we cover that point then the next question, if that's fine with everyone. Jaideep there was one question on other income.

**Jaideep Barve:** Yes. Mr. Saket, you mentioned about the other income. The most significant portion has to be the dividend in that.

**Saket Kapoor:** Correct, sir. One more question that is about the presentation we have mentioned about large order of more than 70 TIJ printers from brewery sector and large export order for laser printer in the FMCG sector. So this 70 TIJ printer is what they are in the pipeline? I do want what we are trying to explain from these nine. What is the opportunity that we have in our hand?

**Shiva Kabra:** Jaideep, that orders was not in the quarter that gone by, are you're sure about this?

**Jaideep Barve:** This is an order what we've got and not executed, which is what we have explained in the slide.

**Shiva Kabra:** So there might be a mistake from our side on this slide. I think that this is not an order that pertains to the halfway that has gone by guys, I apologize for that order. We only have very partial execution of that order. If we can avoid that discussion till, we conclude this order and execute that will be better.

**Saket Kapoor:** Sir come again said, are we having this order in hand of 70 TIJ printer...

**Shiva Kabra:** We got it in the last quarter, but we've not executed it completely. It's also held up because of some shortage of parts that we had and we're in the thoughts executing it. So, I just said that my apologies, we prefer discussing this once we finish executing this order.

**Saket Kapoor:** No issue sir. But can you give me size of this order, sir? What is the total quantum because here it is not mentioned that this has been executed. It has only been mentioned that we have an order in hand?

**Jaideep Barve:** Yeah. Mr. Saket, we are just talking about a large order which are bagged. So, we are not talking about execution.

**Saket Kapoor:** Yes, sir, you are right on that front. I only wanted to know the value of the order?

- Shiva Kabra:** Yeah, so for that, I don't see anything because we don't disclose this type of -- it is directly competitive information, if you will. Because obviously, our competitors know exactly which order we are talking because they were also competing for it and it would be a bit tricky that's all I can say. I hope you all understand this will be slightly difficult for us.
- Saket Kapoor:** No issues with that. Sir, can you give me the utilization levels for our Nalagarh unit in terms of consumables, where current for the quarter and first half as a whole?
- Shiva Kabra:** We don't make any inks in Nalagarh.
- Saket Kapoor:** Consumables, sorry, in Guwahati what is the utilization level for the consumable segment?
- Shiva Kabra:** Must be like 40% to 50% something --we have the capacity to increase a significant amount more. So there's no capex required there right now. Nothing major from what I remember. We had some supply chain issues with some of the specialty chemicals that we are using in ink manufacturing out there also. So, it was a bit up and down production there also. But I think there's no capacity utilization issue on an overall basis, assuming supplies are small. It would have like about 40% to 50% capacity available, maybe we're using 50% to 60% practically.
- Saket Kapoor:** Our employee cost has also gone up sequentially and also year-on-year. So any one-off items in the employee cost that has gone up by INR 3 crore precisely or what should be the annual number? When at this time, we have done INR 13.81 crore.
- Jaideep Barve:** So just on that Mr. Saket, as you would understand because of this new wage code, which has been launched, so we've complied with that. We have done the salary restructuring and that's why you find the costs of employee benefits.
- Saket Kapoor:** So this will be now the order of the day, INR 14 crore a quarter.
- Jaideep Barve:** Sorry. I'm not able to be get it Saket.
- Saket Kapoor:** This will be the number going ahead now, on a ballpark number will be INR 14 crore, what I've been for this product?
- Jaideep Barve:** Correct.
- Saket Kapoor:** Correct. Sir, the last point and come in the queue sir. When you speak about this way forward, the slide which you have put, if you could delve slightly more up on the business environment currently. Sir, I think so you have spoken about the headwinds that we are facing in terms of the non-availability of spares and chips and also the increase in prices because of the spot being purchased at spot prices. So, if you could give us some more color how the H2 is likely to shape up in terms of our execution of selling of more printers and also the consumable sales going up.

So, some more color on how H2 shape up when we look at last year to the current year, depending upon the business environment? That's the point, sir.

**Jaideep Barve:**

Yeah, Mr. Saket to answer your question, see we are very bullish about the way going forward, we believe that there will be higher consumable sales, obviously, because the industry is also in the growth phase. So that's going to be one of the positive-looking aspects for us. We recently launched the Pench product, so we believe that will create the right positive moves going ahead. We are also focusing on the OEM and the key accounts. So, we've got a dedicated team for the key accounts at our company.

So with that in place, we would imagine that we continue to attract newer customers. Our marketing team is focusing on how to capture the last mile user and we also have got inside sales team, we generate the new leads, which were capitalized on and converted into customers by our sales team. And of course, we would like to like increase our market share by increasing the installed base of our printers. So yes, we are constantly looking into the global market or lbetter technologies. So that's the overall strategy, what we feel would be for the way forward for our company.

**Saket Kapoor:**

Right sir. And for the two acquisitions, how is Innovative and the Netherland acquisition dealing with the overall pie? And how are they going to likely contribute going ahead?

**Shiva Kabra:**

So right now to be genuinely honest, Saket that' as far as ICIPL goes, obviously they also have been affected by our supply chain issues.. We were also not able to supply them much printers at all in this six-month period and they were affected much worse than ours. So that was being slightly negative for them. But hopefully, they should see a better rebound in the second half and obviously overall that might have affected their growth, but it's still definitely better numbers than last year, still on a better path. Markprint has their own business in Europe and we're still working on maybe by November, December we should have some of the products available in India and start exploring that category in the Indian market.

So again, we are not overly interfering in what work they are doing in their market, but our focus is more on how we can use their technology to develop products, which are better for or more suited to our markets and Control Print can grow that business. At the same time, they are continuing to grow. So that's also a positive factor and obviously, we are encouraging them to see how they can accelerate their growth even faster in their home markets, and they obviously have more financial and technical, and operational backing from us of a whatever will be come to them.

So right now, it's a standalone story, as of right now, but these are both things that will help us in a longer period of time without a doubt, this was the Markprint acquisition. Yeah, ICIPL of course should be as a team goes through contribute to our profitability, just being on the available same cost fees at least on the manufacturing side, as what we already have. But definitely, ICIPL has been affected like I said, by our supply chain issues and Markprint is something that we've

taken some training on, we've had some changes and now we should start seeing some from November, December you should see an idea of what products we need to do. Get more tweaks on what we have to do, but I think we'll start getting more results in the next financial year, because we normally get things, we have to adjust them, and I think we'll see the better results from maybe from Q1 next year of selling those products in the Indian market. And like I said, there's a good opportunity in that in India.

**Saket Kapoor:** Yeah. Thank you for all the elaborate answer. Jaideep sir, on the goodwill front, if you could give some color what led to this increase in goodwill account from March number INR 48 lakh to INR 10 crore for the first half of September?

**Jaideep Barve:** Yeah. Saket, this because of the acquisition of Markprint, the company in Netherlands.

**Saket Kapoor:** Okay Shiva sir. We will be looking forward for the next quarter and I'll come up with a couple of more points. I think there should be a queue behind me. I'll just join the queue again. Thank you, sir for the answers.

**Jaideep Barve:** Thanks Saket.

**Moderator:** Thank you. The next question is from the line of Prajay Gada from Wealthy Via.

**Prajay Gada:** I just wanted to know about these raw material issues which the organization is facing. Is it because of the import which we are catering or it's more on the domestic side also?

**Shiva Kabra:** No, it's mainly the imported area. It's more especially around electronics it was, but even some of the specialty chemicals or some of the things that we utilize, we use some very specialized pumps and certain valves like miniaturized valves in our printers and all. So, we've been having an issue on multiple fronts. So definitely on some highly sophisticated electromechanical components or other fluid components. We've had some issues in our specialty chemicals, which we use for our inks, and we've been having issues most definitely on the electronic components that we use in manufacturing the electronic board which runs our printers.

So those are the issues but it's definitely improving whereas be or whatever it is, we've somehow managed to get enough stuff together and I think this quarter we should at least get back to like a normal delivery time with our customers.

**Prajay Gada:** Okay. I've been just looking at your presentation, so it shows that from FY '18 till now your margins has been decreasing, so like your gross margin, your EBITDA margin and PAT margin all three of them are decreasing, so can we expect that because, as you're saying that there will be an upward move for this month -- for the increment in this raw material issues. So can you expect by FY '23, we would at least reach to FY '21 or FY '20 levels?

**Shiva Kabra:** On top of it -- I will take this question. I don't remember what our margin was in FY '18 or the preceding years. Obviously, I will say that the last two-three years have been affected or even this year to that extent, not because of COVID but because of the overhang of the supply chain issues that we face.

So, it's a very difficult period to compare directly. And I will say that maybe we've been slightly slow and rolling out that price and we rolled out one price and fee with cost increase now. We're going to put out another one in the process of doing that. So maybe that will get things back on track. But overall, our focus has been more on the revenue growth because this is essentially reasonably high margin. So we don't really look at 0.5% or 1% here of there, it's more about focusing on making sure that our competitive positioning, our technology positioning, our customer satisfaction is high and there will be dividends over medium to long-term situation.

We can grow margins by having faster growth, or we can of course, increase margins by trying to cut costs and roll out more price increases. And obviously, both the things are important. But overall, our focus is more that we really believe that we grow faster than some part of that cost base is going to be fixed, or most of the cost, our cost base is fixed. And that means that we will automatically get a better margin profile.

**Prajay Gada:** Okay, that was really helpful. And one last thing sir. Is it possible to share with us the segment-wise revenue like breweries and industrial healthcare, building production or FMCG?

**Shiva Kabra:** I'm afraid that's not possible because we don't -- again our main competitors are actually none of them are listed in India, but even abroad they all subsidiaries of foreign. So there's no competitive data coming out. I'm sure that they have some idea of what we do anyways, but we don't like to give out that sort of detailed information because there's no benefit to us and it could obviously help our competitors target us in a much more systematic manner.

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

**Devanshu Samat:** Good afternoon. Just a few questions. So just to follow up with the previous participant. So I'm aware that you don't share particular sector-wise information, but earlier we used to talk about packaging versus industrial, right? Which used to be around 60%:40%. So can you just help with getting as an understanding of how the situation is changing incrementally, right? So there'll be an install base which will be, say having a certain ratio and incrementally as you sell more sales, is it more towards the packaging side, food and pharma specifically? Or is it mixed largely similar to your existing install base?

**Shiva Kabra:** So, Jaideep I'll take this question. Like you said, overall it was about 70%:30% for us previously and its come closer to 60%:40%. So there are two things that happen, industrials grow faster and they crash more depending on whether the economy is booming or busting. So in the COVID time, we went north of 40% for packaging and almost 50-50 what I'd say? And then again, when the economy is a bit hot because the construction materials, the building materials, the pipes, the

cables and all those things pick up sort of faster, whereas the packaging sector is a bit more even, you don't increase your consumption of shampoo just because the economy is booming, or surf excel powder or so on for that matter.

So like you said, both of the sectors have their own advantages. When both sectors are growing, the organized packaging market is definitely growing at the cost of the unorganized sector and the volume still continues to grow. So, what I face overall, we're moving more towards 50:50. But of course, it depends slowly over a period of time, and we're comfortable with that. But obviously, the industrials if the economy is a bit hotter, then we've seen that they tend to grow faster. And obviously, we are against, we're not trying to push to a certain ratio by not growing on one side. We want to grow in both areas.

But of course, we believe that because we were not getting the market share that we should have got in the packaging side, we are able to grow a bit faster ahead overall in terms of that. If you look at a long-term shift, yes, we're going more towards 50:50. But on a quarter-to-quarter even year-to-year basis, it will depend on the cycle of the economy. So, what we feel like in general, when depending on the agricultural economy and depending on the overall economy, in especially the construction materials sector, the industrials can grow faster. And then if the market is slightly more subdued if the economic growth then we see that the industrials grow slower. That's the second element of it.

I hope you understood what I meant. I mean, transitionally we'll be moving more towards packaging from a machine sales perspective, but the usage of the industrials, the purchase are more up and down and therefore the percentage shifts a little bit all the time. Although in the long-term direction, it is more towards packaging increasing as a percentage of our overall sales.

**Prajay Gada:**

Sure. I understand. Okay. And the second question is just about this chip shortage and the raw material issues on the high-cost inventory that we spoke about. So is this something that is only for us or is this something that the entire industry is facing? So basically, what I'm trying to get at is, does this affect our market share only? Because the business is such where the customer - like you have to evolve install base and then you get business from that from the consumer later. So are we probably losing market share over here? Or is it something that this issues everybody is facing over here?

**Shiva Kabra:**

So in all honesty, we could lose a little bit of sale for sure. Some customers we might have lost. So we had to take a tough call and we had to sort of service our A, or the A-plus and the B grade customers and maybe some of the C&D orders we couldn't fulfil, or we told them straight up that our lead times are very long, because we had limited availability. But we don't think, we lost that many sales overall because we did do our best to manage in the situation, and a different people had different issues.

Some of our competitors had more issues, maybe on the supply side, some of you know. And in some printer categories, so everyone has had their own issues. It all depends on who is your

supplier of your components is, how your stock planning was, and various factors like that. But yeah, some niggling issues are faced by different people or issue.

But I will say that they seem to be gotten, they had issues earlier than us and they seem to be not having these problems in this financial year, whereas we had a fair amount of stocks of the past, which is why everyone should be comparing our inventory is high, and because of that we could tie over the situation for a long time even though we're not getting new supplies. But then at one point in time the party ran out and we didn't have the paths in stock to keep the things going even though we expected fresh supplies in the meantime.

So that's a lot of the situation that actually happened at that point of time. But I don't think we're losing any market share. I think what we're doing is we are seeing a time shift in sales of printers is what I'd say. So, before long-time customers, they order printers and they are going to have a line or they're going to commission a line, but by the time they put things into operation sometime goes. So obviously, we are now monitoring it. So we actually deliver the printers quite close to when they're actually going to start utilizing the printers. There's normally people order the printers and slaying around for three months before frankly it's utilized.

**Prajay Gada:**

And to avoid that situation, what are the changes we are making, so that this doesn't happen again in the future?

**Shiva Kabra:**

So it's not possible to make changes. One-two components we had hard issues and the lead times are long. So we work with our partners in some cases we work internally, and we have to rewrite some firmware and other things for our printer. But it's too much work because we have to do it, we have to test it, we have to validate everything in this, a lot of things that go in it. And it's easier for us to just pay more money and buy from the spot market.

So hopefully it's not easy. Because you can't change the design of everything. So the option to this is to -- I don't think our supply chain planning was bad. I mean, Jaideep can answer that question better. But it's a tricky situation and the things we're not such a big customer for most of these guys. We're not a big customer that they want to prioritize over Volkswagen, or I don't know, someone like that Maruti or whatever like.

**Prajay Gada:**

Okay, just the last question. You spoke about price increases. So is this something that everybody has done in industry? Or is the only something that we are doing right now? And if so, you can talk about how the pricing situation is within the industry over the last say one year or so?

**Shiva Kabra:**

So, some pricing increases have been done by us about a year and a half ago. And now because of again some cost increases and some other stuff, we don't like to just increase the price on the customers all the time. We don't do that. In honesty, there's not that much inflation in our industry or our business. But because there has been inflation, which is, like I said, it has happened, frankly in the last two, three years. And not only directly on the components and everything, but

some of the associated costs, like freight and logistics costs and all sorts of things. So yes, that's why we feel that we are justified for that price increase. And yes, our competitors have done it a bit earlier than us, so they have increased prices reasonably over this last 2.5 years, 3 years period. I can't see who did what, when, but overall, everyone has increased their costs. And with this pricing, you would be approximately at par with them in terms of how much we've increased our prices overall.

**Prajay Gada:**

Got it.

**Shiva Kabra:**

Yes. Jaideep, you want to add anything to this?

**Jaideep Barve:**

Nothing. You have cleared it, Shiva. Nothing.

**Moderator:**

Thank you. Participants if you wish to ask any questions please enter star and one. The next question is from the line of Mohsin, Individual Investor. Please go ahead.

**Mohsin:**

Yes. Thank you for the opportunity. My first question is regarding the revenue thrown by you every quarter, it's very commendable. How do you see second half behaving versus H1, and how will the revenue mix behave as per what you are seeing in the market?

**Jaideep Barve:**

Shiva, should I answer, or you would like to take this question?

**Shiva Kabra:**

Sure. I can take it. I think Jaideep has answered this earlier. We are still feeling that we should have a good second half, as of right now. We don't see any problems in the market. We don't see any issues. Of course, like I said, we had some supplies chain issues, but we seem to have now come to a pretty good situation in the last couple of months, I'd say, where we are now actually clearing out some of the backlogs.

So I'm hopeful that we do okay. And of course, there are other positive figures like which we might not see this year, but with IC IPL, they were not able to get supplies very much at all for us that will help them. And with Markprint, we will start something like a long initiative which we want to develop some new application with them. So, of course, it might not contribute for sales in this financial year, but we have hope to set up a platform that will help us next year. So I think, yes, it's looking fine so far overall.

**Mohsin:**

And the second question is sir, can you enumerate a bit more about your export order, I believe...

**Shiva Kabra:**

Great things because I know some of you will be thinking, but normally we don't give specific guidance, so just to get an idea.

**Mohsin:**

I can understand sir. Sir the second question was regarding the export order for laser printer in the FMCG sector. Can you elaborate on that? I believe this is the first export order?

**Shiva Kabra:** For lasers, probably?

**Mohsin:** Yes sir, for the lasers.

**Shiva Kabra:** First half, it is for the lasers. So Jaideep can definitely elaborate on that.

**Jaideep Barve:** See what we've done is that we have supplied to a large corporation, we won't diverge the names because of confidentiality in it, but it's a large corporation which is based out of there, and it is one of the co-packers of the consumer industry. And what we believe is that this is just the first of the orders, we've now established our base, customer base in Indonesia and we feel that going forward, once this is a successful proven model, the other regions also would open out for us for the laser printer.

**Moderator:** The next question is a follow-up question from Saket Kapoor from Kapoor and Company. Please go ahead.

**Saket Kapoor:** Thank you, sir. You did mention in one of the releases about our operations in Sri Lanka. Now how well are we -- what is our game plan going there and what are we exactly trying to do after the gap there?

**Jaideep Barve:** See Mr. Saket, since we had operations earlier in Sri Lanka as well, we have an installed base at Sri Lanka. So for the current customers, there is still some demand for the consumables also we need to service our printers over there. And this is our philosophy of thinking of revival of operations for Control Print in Sri Lanka. Maybe in the next two years the economy will make a U-turn, and everything will be rosy then. And then we don't want to just stop the shop now and then restart it after two years. So till that time, as you would understand, we are just oligopoly four players. We don't want our existing customer base to go to the other parties.

And slowly, we feel that the economy is slowly picking up. So maybe it's a two-fold angle. One is to service our existing customer base and second is for tapping few more opportunities going ahead. So that was primarily the main reason for us to resume our operations in Sri Lanka.

**Saket Kapoor:** What kind of investments sir, are we contemplating? Just to resume the services and the recurring costs that we have to incur just to keep our foot there?

**Shiva Kabra:** Yeah. I'll just answer that question Saket. So first well put Jaideep, and I just want to say that answering your question Saket that what happened is that you see we lost a lot of money in the past that was because of the rupee depreciation and so whatever money, it was Sri Lankan Rupee, I don't know what is went from 100 to 300 or something. So we lost that thing and the inventory and all those things, the whole book depreciated. So that sort of done at one point of time, obviously we've readjusted all our prices now to US dollar terms and in between, there was no consumption.

So we believe that with the amount of sales that we can generate and of the consumers of the service even at a reduced rate, that at least covers all our operating cost in Sri Lanka. So, without really increasing our inventory, without really spending money, it's more of a holding operation right now and we are hoping for a U-turn in the economy and obviously at that time will be more aggressive.

So it was just sort of a strategic decision that we worked hard to create a base. Obviously, the Sri Lankan economy is not booming right now. But even if we just use part of the existing base that covers our cost of operation and as long as we don't increase our inventory exposure there, we don't have to be worried about further depreciation and other things. I'm not saying that we're expecting any great results from Sri Lanka like Jaideep said for at least two years, but we don't expect to put more money in there for the next two years. So that's more of the thought that we had. But in case after two years there is a rebound in the economy, then if we shut down now, do not be able to capture that rebound of the long-term economy.

**Saket Kapoor:**

Just to sum it up, currently we will be trying to service the printers that are already installed based there and to service the consumable segment. So there won't be any further capital investment that point be there, only we are going to service our base there. That is what you are trying to explain currently?

**Shiva Kabra:**

Yeah. Right now, we didn't invest any additional money in the last thing. We had already invested some money. What happened is that money was depreciated in Sri Lankan rupees, so we were still making a profit. It's just that suppose I invested \$1 million or whatever if I invested INR 5 crores, whatever it was, we've invested INR 100, INR 100 itself became worth INR 40, so we lost INR 60 in the currency fluctuations and whatever others have things happened. And then on top of that, the sales and the economy literally stopped for a year, frankly, even the consumables, everything. Because in between our people was saying that they don't even have diesel or whatever petrol to go for the customer or go to office. I really don't know what is going on out there 100% but obviously, the situation was quite dire.

That is where we were getting more worried. But then things have improved. They're not normal, but they've improved, and we've taken a fresh look. So Jaideep was calculating, and he said that okay, we can continue without investing new money. So of course, that loss that we had that suppose we invested INR 100 and become worth now INR 30, INR 40, that loss of INR 60, INR 70 remains. The question is we don't have to invest more money. That's what I say.

**Saket Kapoor:**

Sir, if I could just sum up with your commentary and the point you are trying to make is that we are facing headwinds in terms of the spare parts for our printers and due to the non-availability and the spike in the spot prices we have to cater to meet our customer demand. The higher prices we have paid that has taken a hit on our margins?

**Jaideep Barve:**

It is only insignificant. It's not a substantial yet, Saket.

**Saket Kapoor:** Okay. Just to get the margin picture clear, sir, this 60%, 62% gross margin bracket, are we going to be in this bank going ahead? Also back into Q1, we did 63% gross margin and this time it's a 200 basis points reduction that we have seen in the gross margin. So in the likelihood, what is the bank that we are having for H2 sir?

**Shiva Kabra:** Just to ask you a question, are you looking at a standalone or a consolidated basis?

**Saket Kapoor:** Sir I'm looking at a standalone only, sir.

**Shiva Kabra:** Okay. Like I said, see honestly, I really don't pay that much attention. I want to be very straightforward to whether I'm making a 63% margin or 65% or 61% or 62%. It's more of an especially on a quarter-to-quarter basis we really wouldn't on a month-to-month basis, we wouldn't pay any attention. We've been having these issues with the supply chain for some time now, and it obviously costs us money. And I will not say 100%, but I think like most of the issues in terms of the gross margin decrease will be related to certain supply chain issues that we have.

And like I said, we used specialized, everything was quite specialized. Now, if you're making like maybe the wrong comparison, but if you're making Vande Bharat train, or Tejas Mach5 flight, then every component is specified. To change any component, any electronics, anything is not easy and our printer sort of built the same way. If it's done, it's not like steel, I can change steel from Tata Steel to JSW too. I don't know.

**Saket Kapoor:** I got your point, sir.

**Shiva Kabra:** All our things are very technically specified, and it takes a lot of testing and other work to change from anyone to anyone. So a lot of times it's not like we also feel that, oh, this other thing is available, and we could have used that, but we have to design the product with that chip in mind or that component in mind, and we can't just keep changing. So that's the issue that's there. And of course, there's been a little bit of Rupee depreciation versus the Dollar, those not affect us that much because some good chunk of imports and Euros and Japanese Yen and all those things, some part is Dollars and so on.

So obviously these various little factors are there. Like I said, sometimes, yes, maybe we could also have been like our competitors and been more aggressive with the price increase. But honestly, because we were having supply chain issues. We were not -- our customers are anyways unhappy because they were waiting for printer deliveries and other things. We do not want to take a price increase at that same time, when some of our supplies were delayed both on the consumable side and on the printer side especially and then also at the same time talk of a price increase. We felt first, we should just sort out everything, get everything back to normal then we'll talk about price increase.

**Saket Kapoor:** Okay. So current situations have we completely overcome the issue or there are something more that will percolate for the H2 also?

**Shiva Kabra:** No. Obviously some of the inventory that we've approved to purchase is at a high cost, so it will be there but hopefully the cost increase would take care of most of that I mean, the price increase rather. We'll see, I mean I don't know often like I said, we might see more of an impact on the Q4 because we've given a notice out to our customers. So I think if the price increase will not really be rolling into maybe a little bit later this quarter if not, towards the end of the quarter.

And of course, some of the inventories also there are at a higher costs and hopefully I'm also hoping because some of the cost increases that we faced we are also hoping that they're not permanent in nature, so we have to work through this whole thing.

**Saket Kapoor:** So any price increase that we are expecting should happen for quarter four only because you have given an upfront date to your customers?

**Shiva Kabra:** It should start towards the end of this quarter. The basic most of it will come in a Q2.

**Saket Kapoor:** Got your point. When we look at the inventory part, which we have been picking for quite a long debt, now the inventory has gone up to INR 70 crores so what should be a percentage breakup between the value for printers and consumables into INR 70 crore inventory figure, sir? On the ballpark percentage, yes?

**Jaideep Barve:** Yes Saket, it depends on the strategy of the management, right? I mean sometimes we might get a better rate and we might purchase at certain volumes, so there is no fixed percentage or in bunch of inventory turnover that you can have. It also depends upon the minimum supportable MRP which we calculate for each SKU, so that would depend, I mean there's nothing like a standard which we have to comply

**Saket Kapoor:** No sir. I'm asking about the breakup of INR 70 crores. Out of the INR 70 crores how much would attribute towards the value for printers and how much would be the consumable and the spare parts?

**Jaideep Barve:** Saket, I think this is some confidential information, you have for the financial numbers at our website as well as the Stock Exchanges, so if you can take information from there.

**Saket Kapoor:** Didn't get you sir, come again, sir?

**Jaideep Barve:** The breakup would be slightly for confidential nature.

**Saket Kapoor:** Okay not an issue, sir. And lastly, to Shiva sir about -- sir, we have always seen that the management, the board has always been stakeholder friendly and in terms of distributing cash to its investors. And as has been the case historically, we are getting two different. Firstly once,

the nine-month numbers are there and then the final account, so in the very likelihood that should be the nature this year also taking into account the cash generation that has happened, so that understanding for investor base is correct because this time also we have come up with an acquisition at the Netherlands, or do you revise the different pay-outs going there? What's the thought process in sharing of the cash or the cash allocation strategy which you have already attributed, I think in the last call also? So, if you could throw some more light on the same?

**Shiva Kabra:** I think honestly, this was discussed on a lot of depth last quarter because I think in fact maybe you had only raised it up. I'm not 100% sure.

**Saket Kapoor:** I just wanted the retracement on that front.

**Shiva Kabra:** The board has decided that INR 50 crores is what we'll keep as cash on books, including whatever investments, cash, bank balance, whatever form of liquid investment, how you're going to term it, and we have our limits for any acquisition or other opportunities that come, and obviously, we are looking also at other opportunities, we've been clear about that, like how Markprint was an opportunity and so on.

So obviously, we invest in our growth and if we get the right type of growth opportunities in acquisitions, we will do that. And whatever more than INR 50 crores the board has said that we will largely return back to the shareholders. What form it will take, whether it would be a nine-month dividend, or it will be a buyback, or it could be some other form, I cannot say that often. It should be their decision. Definitely, everyone will know, but nothing has changed on that front, is any specific questions that are there on that, I can address them?

**Saket Kapoor:** No. Not at all.

**Jaideep Barve:** Saket just to clarify your query. On a standalone basis, the inventory has increased from INR 65 crores to INR 66 crores. So I think INR 70 crores number that you got probably, it might be from the consolidation number.

**Saket Kapoor:** Yes, I'm looking at the consolidation number.

**Jaideep Barve:** Yes, obviously because we've told you that we've included Markprint's numbers as well as ICIPL numbers. Those numbers also contributed.

**Saket Kapoor:** Contribution from them also this year. For the Mask division it is done and tested now or are we doing good work? I think the last time you did mention about the Mask division also some prototype being developed especially for your customers. So what's the take on the Mask division?

- Shiva Kabra:** We're still selling masks, we are still doing a reasonable amount of business. But yes, it's continuing, it's not a big business, but it's not declining as much as what everyone thought it. It's okay. But we don't prototyping, I'm not sure what you're talking about.
- Saket Kapoor:** As I can remember correctly, we spoke about a particular type of Mask being done for your customer. The customized Mask, going ahead for your customers only. If I'm wrong, then I stand corrected there. That was my question that are we developing any different variety of Mask for them or how is this segment going to contribute? Earlier you have mentioned that this is only for the purpose of the CSR activity and it is benefit of depreciation.
- Shiva Kabra:** It's continuing to that extent because there are still many large customers we supply to, and I guess they continue to order on us, so we continue supplying it. But it's not anything major in terms of revenue or profits or something.
- Saket Kapoor:** In these 5% to 8% Masks only sir for revenue? 5% to 8% revenue has been contributed from the Mask segment for the quarter?
- Jaideep Barve:** No , as of it is 3%.
- Saket Kapoor:** 3%?
- Jaideep Barve:** 3% yes. This was similar to the last quarter as well.
- Saket Kapoor:** Correct. And sir, no update on the Liberty Chemical or VideoJet, the status quo for the two?
- Shiva Kabra:** Absolutely status quo..
- Saket Kapoor:** Correct. That's all from my side. I was just trying to make sense that there is a continuity of the business volume and the sentiment improving for H2. As we have always seen that the H2, the second half for us and for the industry has remained has always been better than what H1 is. So in the very likelihood, keeping in my mind the factors that this resulted into some higher cost and some non-availability of spare parts, we could look for achieving growth on top of what we H2 did last year. So that this basic premise is correct, sir?
- Shiva Kabra:** I mean, this is all hypothetical, so I cannot say anything. But yes, we did have some order that we could not fulfill. We had some orders, like I said in the C&D grade customers where we actually might have lost some or could not able to meet their timelines. But we are executing those things and clearing out these backlogs now. So, I cannot say what we would have done or what would have happened, because that's all hypothetical now.
- Moderator:** Sorry to interrupt Saket. I would request you to please email questions, we have to move to the next questioner. Thank you. The next question is from the line of Rupen Masalia from RN Associates. Please go ahead.

**Rupen Masalia:**

Yeah, thanks for the opportunity. My question is to Mr. Shiva Kabra. Sir, in the medium term that is over next three years to five years, where do you see the current industry, coding and marking industry? Because currently the current size is around INR 1500 crore, so over the next three years to five years and you are enjoying 18.5% market share currently. So in the medium-term, where do you see that growing?

And secondly, how do you see to increase the opportunity landscape for Control Print as a company? Maybe by venturing into adjacencies like, say tracking and tracing or maybe some software-related stuff, so if you can throw some light on that?

**Shiva Kabra:**

So I'll try my best. Thank you. I will say that as far as the coding and marking business was, it was about between INR 1600 crores and INR 1700 crore last year, including the unorganized segment. And the organized segment was somewhere between INR 1250 crores and INR 1300 crores that is our three biggest competitors, about INR 1200 crores to INR 1250 crores it was.

Obviously, Mr. Kabra, if someone has get the Annual Report, the Board of Director says set us a target of INR 400 crores by March 2025 for Control Print, this is the standalone business we're talking about. Our target, obviously, if our subsidiaries or associates or any other investments we do in the meantime, we hopefully contribute more to growth and as we have intimated in the past, we don't have a major CapEx plan between now and INR 400 crores.

Of course, there is some, there's a few crores we spend every year and we keep improving our facilities. But nothing a major, not really more than what the depreciation rates would be. So we don't expect that most of the profits we generate would be a free cash flow. And depending on the type of acquisition opportunities we have, we look at those or else. The board has given us an indication of how much cash, which you already have that much, if not more, and to look at that. So I think that's the broad strategy that's there.

And like you said, as far as adjacencies and other things going, obviously Markprint was an opportunity that was there because essentially, we're in the coding and marking space, which is the simplest form of printing. We have the lowest thing because it's a date code and a batch code, of course, it's difficult to print on the line. And then you have big printing presses made by Domino and Brother together, or HP, Indigo, Kodak, those types of people. And there's a big space in between in the packaging sector. And of course, there's a lot of specialized printing presses for ceramic tiles, for textile, we're not focusing so much on that.

In the packaging sector, there's a big space between the huge presses and the coding and marking business, and that's an area where we are trying to look at and which are we focus on the Markprint acquisition to see if we can develop a market like you said, other adjacency in that area. And definitely in track and trace, we already working on it and we actually are having more partner-driven solutions in that. But it's something that we also looking at now or looking at our solution, which will also be maybe partly powered by some of our partners. But we will be

focusing on selling the entire solution from Control Print and that will hopefully give greater sales and success in that area.

So far it is more pharmaceutical driven. But of course, I do believe that the feasibility solution will increase across the board and of course, in some a lot of cases we do contribute software also along with our printer, lot of integration that happens. So yes, these are all areas obviously we are working on. And as far as the coding and marking business overall, I would ask this to hit INR400 crore. And we do believe that the coding and marking business will grow at about 1.5 time GDP of industrial production in India or manufacturing growth how is.

Manufacturing growth would be the best proxy, but if approximately that's not the case, we assume that manufacturing growth and GDP growth would be the same. So that's all-weather, overall coding and marking business grows in our own names. And of course, what will happen besides the adjacency that we've already discussed, it would depend on what sort of opportunities come our way between now and in the future. Because in some cases, it's not practically possible for us to build in-house although we have the capabilities, it'll take us a long time and it would make more sense to purchase.

**Rupen Masalia**

Okay. So basically sir, you highlighted that industry is growing at probably 1.5 times GDP. So within that I think around INR 1200 crores to INR 1250 crores that's the pie enjoyed by unorganized players. So maybe migration from unorganized to organized, because as you alluded earlier like packaging or across the board within the economy, there is a clear cut migration of market from small unorganized players to corporate organized players. So maybe how do you see the pie? I mean INR 1600 crores. INR 1700 crores that's organized market, so around INR 2800 crores if I add unorganized.

So within the shift within the industry from unorganized to organized? That is one part and second sir, off-let regulatory requirements has gone up like say on pharmaceutical authority or top 300 formulations now there has to be a certain type of coding marking? Yesterday fssai came out with certain labeling norms for brand manufacturers. So in the light of all these positive tailwinds, what is your view on the industry going forward? Like, one migration of share from unorganized to organized and second the regulatory requirement? So the way in which industry grew in the past, maybe 1.5 times GDP going forward, can one expect a player, organized player like Control Print to grow at a higher the industry rate within the organized pipe? If you can throw some light?

**Shiva Kabra:**

Yes, I think the first maybe there was some misunderstanding. But I said the organized market is INR 1200 crores to INR1250 crores, including the unorganized market is about INR 1600 crores to INR 1700 crores. INR 400 crores to INR 450 crores in the coding and marking industry. I said in that obviously, the coding and marking that INR 1600 crores or INR 1700 crores business overall is growing at the rate of about 1.5 times real GDP, not normal GDP, but real GDP. Within that we are targeting to hit INR 400 crores by March 2025. And of course, we intend to do it without any real capital investment. We don't need to do that we believe we intend

to maintain our overall of course, I think there's been a lot of debates in this conference so far regarding margins and whether 63% and 61% and whether our EBITDA 23% and 25%. Roughly being in the same zone, if not higher overall on a longer-term basis, obviously we expect to improve.

So I think, like I said, that's what Control Print's aim is. Besides that, we are already working on exploring these adjacencies. These are new initiatives, obviously we're ready to invest money. We spent some amount of money in the Markprint acquisition, and we are going to spend fair amount of money developing our solutions for that, for the Indian market also and for Markprint to try and grow in their areas and look out for other opportunities in this space. Like I said, between the coding and marking business and the huge presses which are like multimillion-dollar solutions competing with conventional presses like Heidelberg KVA Self in those types of people. So that's where the thing is as of right now.

Secondly, coming to the Track & Trace, and I just want to say for the pharmaceutical thing, I mean just being in this business, I know this sounds a bit I should be very excited, but in the pharmaceutical Track & Trace requirement came out like 10 year or 15 years ago, and everyone knows that the pharmaceutical lobby or the industry association is very strong. So in the past, government has come out with many proposals, even they come out with regulations, and they set deadlines.

And honestly, the industry, not only in pharmaceuticals, even some of the other industry associations -- they have a tendency to make things voluntary. Is that the way, right way to a word it? Of course, I'm not saying anything against it, it's totally, it's not our area too, because the government is looking into it actively and they are interfacing directly with the industry association.

What I'm just saying in the past, even deadlines have come and they have been either the deadlines are continuously shifted, or they have even been removed or the regulation so it's difficult to make a strategy based on something that might happen, which in past experience has not happened continuously. So this is not a new thing. So I think that we are more focused on what sort of innovations we can deliver to the customer, what sort of values we can deliver to the customer, and not really relying on that the government is going to take out a big stick and hit everyone with it and that will force everyone into buying our solutions.

**Moderator:** Thank you. I now hand the conference over to Mr. Karan Bhatelia.

**Karan Bhatelia:** Hi Shiva, any closing remarks are you want to make?

**Shiva Kabra:** I just wanted to wish everyone happy the Diwali. I know that this is a very busy time for everyone because there's a lot of other results coming are really value everyone coming on board and taking the time, and of course it's the time to celebration. So all the best for everyone. And like I said, we've had not very eventful Q2, but we hope to continue this going forward in Q3 and



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Q4. Hopefully nothing resolved the lingering issues that are there regarding supply chain stuff and just focus on our performance and our customer satisfaction going in the next two quarters. And of course, we'll catch up with all of you again sometime in the third week of January. And thank you to Karan and AMSec for hosting this. And thanks to each and every participant for taking their valuable time and happy Diwali. Jaideep, you want to add anything?

**Jaideep Barve:**

No. Just wanted to wish everybody a happy Diwali And wish you all the best. We'll see you in the next earnings calls.

**Moderator:**

Thank you very much. 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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