



6th June, 2022

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Dear Sir,

Sub: Post Earnings Call - Submission of Transcript

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Post Earnings (Conference) Call held on Tuesday, 31st May, 2022 which is simultaneously uploaded on the website of the Company.

The audio recording of the above had already made available within 24hours on website of the Company.

This is for your information and records.

Thanking You

Yours faithfully

For LINC LIMITED

N. K. DUJARI
Director Finance &
Compliance Officer



“Linc Limited Q4 FY-22 & FY22 Earnings Conference
Call”

May 31, 2022



MANAGEMENT: **MR. DEEPAK JALAN – MD, LINC LIMITED**
MR. N.K. DUJARI – DIRECTOR (FINANCE), LINC LIMITED

MODERATOR: **MR. SAMEER DALAL – NATVERLAL & SONS**

Moderator: Ladies and gentlemen good day and welcome to Linc Limited Q4 and FY22 earnings conference call hosted by Natverlal & Sons. 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. Sameer Dalal from Natverlal & Sons. Thank you and over to you sir.

Sameer Dalal: Thank you Lizann. Good evening, everyone. Thank you for joining us on Linc Limited Q4 and FY22 earnings conference call. Today with us we have the management Mr. Deepak Jalan, who is the MD, Mr. N.K. Dujari, who is the Director, Finance and representing the Investor Relations Advisor Mr. Sanjeev Sancheti of Uirtus Advisors.

We will begin this call with opening remarks by the management on the business operations, key initiatives and broad outlook followed by discussion on the financial performance of the company. After this the management will open up for a forum for a Q&A session. Before we get started, I would like to point out that some statements made or discussions made today maybe forward looking in nature and must be viewed in conjunction with the risk and uncertainties we face. A detailed statement and explanation of the risk is included in the earnings presentation, which has been shared with some of you. The company does not undertake to update these forward-looking statements publicly. I would now like to invite Mr. Deepak Jalan to make his opening remarks. Over to you Mr. Jalan.

Deepak Jalan: Thank you. Good afternoon, everyone. This is Deepak Jalan and I thank you for taking time out of your busy schedules to join us today. A very warm welcome to all of you to Link Limited Q4 FY22 and FY22 full-year earnings conference call. I hope that you and your family are doing very well. I will take you through the business and operational highlights of the quarter and the year gone by while our CFO and Director of Finance, Mr. Dujari will share the financial metrics.

During the year the company delivered strong top-line growth of over 38% clocking an annual operating income of Rs. 355 crores. In spite of schools and colleges remaining closed most of the year we were able to achieve over 89% of pre-COVID level income in FY20. In fact, our operating income for Q4 FY22 at Rs. 111 crores surpassed pre-COVID levels of Rs. 101 crores in the same quarter FY20. With students going back to classroom learning we are confident that the demand for company's products will see strong growth over the next few years.

In the mark segment of writing instrument and more specifically the pen segment, the company continues to have a strong presence with market share of about 8%. While the company has in the past focused largely on the lower segment of the market, it shifted its focus to the Rs. 10 and above segment of the market with the launch of Pentonic brand in 2019. Pentonic was quick in capturing the imagination of the user segment being a minimalistic yet contemporary pen. It's aesthetic as well as writing smoothness has appealed to all segments of the market. One of the USPs of the product is its perceived value due to its unique design has gone a long way in establishing Pentonic as one of the strongest brands in its segment. In just three years Pentonic alone today contributes over 25% of company's overall revenues. The success of Pentonic brand

of pen has also helped the company improve its overall margins. The company's average GPN which was below 22% in FY18 has steadily increased up to 25% in FY20 as the share of Pentonic continue to rise over this period. This was possible because Pentonic GPM is much higher at around 43%. While the top-line growth has been strong in FY22, the company witnessed sharp increase input costs during the quarter led by unprecedented rise in crude and polymer prices. While the company was able to absorb some part of the cost increase due to higher mix of Pentonic in the revenue basket, margins did get impacted and GPM fell by 18 basis points year-on-year and 241 basis points sequentially. Operating margin also fell year-on-year and quarter-on-quarter due to lower GPM, significantly higher freight rates and higher marketing and new customer acquisition costs as a company accelerated his marketing efforts on reopening of schools and colleges. While crude and polymer prices continue to be high impacting our margins, we believe that such heightened prices are not sustainable and should stabilize in the coming quarters. This along with our continued focus on higher margin products should help us in improving our margins and profitability. As we continue to sail through these unprecedented times of high inflation we know for sure that while these times will not last, it will usher in new learning and will mold us to emerge as a much stronger resilient business. The company remains committed to its goal of delivering sustainable and profitable volume led growth built on strong brand equity and gradual scaling up of the new pillars of growth.

Linc 2.0; since the time we started, the company has seen many business cycles. It has been able to rudder through its way, surviving all the true profitability with the five-pronged strategy that we have embarked upon. We believe the company will not only grow at a rapid pace over the next few years but will also be able to expand its margin with judicious business mix and economies of scale.

Let me now take some time to explain the five-pronged strategy adopted by the company. The first one, increases touch points. Realizing the potential of retail reach in FY20, the company decided to unleash the power of the Kirana reach while the competition in the sector continues to focus only on stationary and large format stores, the company in consultation with vector consulting group embarked upon a massive project of penetrating the Kirana network of India to increase their points of presence for company's products. India has over 10 million non-stationary outlets like Kirana, medical stores, pan plaza. In fact, from a mere 5000 sets outlet in FY20, the company has already reached 1 lakh such outlets by now and it expects to expand its overall reach to more than 5 lakhs touch point by FY25.

The next is focus on higher margin products; with the introduction of Pentonic, a new chapter was written in India's writing instrument industry, no other pen company has dared to envision a pen at Rs. 10 price point without metal clip, transfer film or individual packaging. While the perceived value of the pen was Rs. 10 or more it's bold, neat aesthetics and unconventional product build ensured that the margins of Pentonic are significantly higher than not just company's other products but also that of products from competition's portfolio. Since its launch in FY19, the share of Pentonic range of products has grown to more than 25% in value terms with gross margin of around 43% versus the average company level margin of 25%. The

company continues to focus on growing the share of Pentonic revenue and is continuously adding more products in the Pentonic portfolio.

The next lever is in roads into stationary products. The company started its foray into full range of stationary products through its exclusive Deli. Linc is India's exclusive importer and distributor for Deli, which is Asia's largest stationary manufacturer. Stationary products are highly complementary to company's main product and hence will help significantly in its top line growth. It is expected that Deli business should add about Rs. 100 crores to the company's turnover in 3 to 4 years' time.

Next step up the existing capacity; company's focus on rapidly increasing its retail reach will go a long way in increase off-take of company's products and to be able to meet up with envisaged demand, the company has embarked upon an expansion plan wherein it is putting up a new manufacturing facility in the existing location at Gujarat. This will not just rationalize logistics but will also result in economic synergies. While the basic infrastructure will be put up to double in-house capacity from the existing 10 lakh pens per day to 20 lakh pens per day in order to conserve and use capital judiciously the expansion will be modular and in the first place, the in-house capacity will be increased by 5 lakh pens per day.

Last but not the least ESG; true to our ideology of sustainable living, the company has taken significant steps not just to give back to the society but to also make the products and the processes more sustainable. In this direction the company has taken the following steps; in an industry's first doing away with individual plastic wrapper packaging and substituting it with paper bulk packing of 10 or 20 pens in a paper box and in the process save 60 tons of plastic in FY22. The company employs more than 1200 female employees in its manufacturing facilities. The company also employs and provide training to a greater number of especially abled workforce. Company is a longstanding partner of Friends of Tribal Society and other such organizations in providing support for education and other welfare activities for the less privileged. The company continues to focus on its sustainability goals and is actively working on projects like recycling of used pens. Under the company's refill more campaign, consumers are encouraged to change the refill more often rather than discarding and buying a new pen. These efforts will go a long way in contributing towards reducing carbon footprint on our beautiful planet. Now I would like to handover the call to Mr. Dujari to provide updates on financial numbers. Thank you.

N.K. Dujari:

Thank you sir. Good afternoon, ladies and gentlemen. Many thanks for joining the Q4 and FY22 Link Limited earnings call. I will give a brief overview of the financial numbers for the quarter before we open for Q&A. I hope everyone must have got a chance to look into at the earnings presentation, the press release and the strategy deck by now. As you are aware from the last quarter, we have started disseminating product and trade wise revenue data which should help you to track the company's progress with the clear lens. During Q4 company's operating revenue grew by about 18% from 94 crores to 111 crores. In the full year it grew by 38% from 257 to 355 crores. Operating EBITDA in Quarter 4 fell by 11% to 6 crores versus 6.5 crores with an operating EBITDA margin of 5.3%. In FY21 operating EBITDA grew by 111% to 22 cores

versus Rs. 10 crores with an operating EBITDA margin of 6.1%. As already explained by Mr. Jalan in the opening statement, operating EBITDA margin fell mainly due to sharp all-around increase in the input prices, global trade escalation as well as increase in marketing spend as school and colleges reopened fully in Q4. Elevated input cost could keep the margin under pressure in the immediate future. However, such elevated polymer prices may not be sustainable and we expect prices to correct and stabilize at levels lower than these in the ensuing quarters. The product cost increased the range of 5% to 7% in Q4 FY22.

We are glad to share that the company has been able to pass on the cost increase to the customer effective from April '22. Q4 profit before tax stood at 4 crores, down 10% year-on-year and FY22 profit before tax stood at 11 crores as against loss of 4 crores in FY21. FY22 EPS stood at 5.47 versus 0.03 in the same period last year. Company has used its free cash flow very judiciously and, in the process, has been able to reduce its net debt significantly over the last 4 years from 65 crores in FY18 to around 3 crores in FY22, a reduction of over 60 crores in debt. Net debt by equity has also gone down to 0.2 times as on 31st March '22 versus 0.54 times as on 31st March, 2018. Net debt by operating EBITDA has also improved substantially from 2.54 times in FY18 to 0.13 times in FY22.

The board of directors at its meeting held yesterday has proposed a dividend of Rs. 1.80 per share resulting in dividend payout of over 30%. The company will continue to focus on shareholder value enhancement and will maintain a steady dividend payout in future as well. The company is extremely focused in using its resources judiciously and has embarked a modular expansion plan in Gujrat. While the basic infrastructure is being created to double its capacity to 20 lakh tons per day, some critical equipment and machinery will be added in modular fashion in sync with the demand needs. While the total cost of the project is expected to be around 50 crores, the first phase of the extension will increase the capacity by 5 lakh pens per day. It will cost around 35 crores and will be operational by Q4 of FY24. The expansion will be largely funded by international and a small loan of not more than 15 crores. On the back of expanded capacity with customer demand expected to be buoyant, the company's well set to achieve a top line of over 604 crores by FY25 with the CAGR of 20%. During this period share of Pentonic revenues expected to grow to over 32% while Deli is expected to contribute about 15%. Over the last few months input cost has been rapidly increasing. This has put a pressure on the margins. In spite of these headwinds, with our drive towards cost optimization we improved efficiency aided further by increase in share of high margin products. We have been able to stand its impact on the on our margins. With strong growth prospect increase penetration through the Kirana network and the high focus on Pentonic, we should be able to achieve annual operating EBITDA margin of over 12% by FY25. With low-cost modular expansion and judicious use of debt we expect ROE to cross 18% by FY25. We continue to remain focused on our long-term goal of sustainable growth, profitability and strong deleveraged balance sheet. With this I leave the floor open for Q&A. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Varun Bang from Bryanston Investments.

Varun Bang: What is the rationale for diversifying into a stationary wing, when we have large opportunity in the pen segments because we have tried this in the past and we did not have great success in this? What are our learnings from the past and what do you think, can you please elaborate?

Deepak Jalan: Varun, you know that the pens are sold from these stationary outlets only. So, we are trying to leverage our existing network of channel partners and distributors to distribute our stationary products to the retail outlets. So, we've tied up with Deli which is a MNC and they have a wide range of stationary products and it is also a learning for us because we specialize in manufacturing of just the writing instrument and this association with Deli distributing stationary products is also a great learning for us to learn different categories in the stationary. Like we are distributing calculators, we are distributing scissors, we are distributing desk organizer, files and folders. There are more than thousand different stationary SKUs. So, I think this is a good learning for us. In future whichever category we feel has the great potential we can start our own manufacturing.

Varun Bang: That is helpful. How have our gross profit margins moved in Pentonic range in last one year?

Deepak Jalan: The gross margin now when we started, when we launched Pentonic, we launched it at Rs. 10 and of course in FY19 the raw material prices were subdued. We started with about 50% of our gross margin in Pentonic while our legacy products under Linc brand were having only about 20% or so gross margin. It was a high margin product for us and it was received well by the consumers as well as the trade. But unfortunately, in last 2 years because of the input prices going up the gross margin has come down from 50% to 43% but it is still way above our legacy products. We believe that we will be able to maintain a gross margin of more than 40% Pentonic range.

Varun Bang: What is the strategy to get back to the old margins? Do you think we'll be taking price hike in the Rs. 10 product or we'll move to the higher value products. What will be the strategy?

Deepak Jalan: Varun, the strategies of course as you know that typically in FMCG products, there are very strong price points like Rs. 10 or Rs. 15 to Rs. 20. So, there is no price point at like Rs. 12 or Rs. 11. It is not easy to really increase the dealer price very much. We can go up to only certain extent. The strategy is to develop new products under Pentonic at Rs. 20 MRP and Rs. 30 MRP to maintain our overall more than 40% gross margin.

Varun Bang: One question on shareholding, there has been some reduction in promoter shareholding last couple of quarters. What has been the reason behind this and is a more reduction expected in coming quarters?

Deepak Jalan: So, this is a little sensitive question but let me answer this. One of the promoters who is no more a promoter actually although still he is in the promoter group. He had some of his shares which he sold off and he still has some shares which he will sell off. But the remaining number of shares are very little. Actually, there is no dilution from the core promoters.

- Moderator:** The next question is from the line of Himanshu Upadhyay, an Individual Investor.
- Himanshu Upadhyay:** I am Himanshu calling from O3 Capital. See my first question was on this Deli. We have stated that we'll get 20% margins. This 20% includes the distribution margins also which will be shelving it out or it is purely 20% for us?
- Deepak Jalan:** It's 20% for us net.
- Himanshu Upadhyay:** The marketing and everything will be done by Deli or there also we have to do something?
- Deepak Jalan:** It's all it's all done by us but if there is any ad spend it is shared between a Deli and Linc.
- Himanshu Upadhyay:** One more thing, the Mitsubishi and Deli this thing will we sell their pens also or the pens will be...?
- Deepak Jalan:** No, we will not. It is very clear to them that since we are the pen manufacturer, we will not sell pen.
- Himanshu Upadhyay:** So, Mitsubishi is also comfortable with that because they are also...
- Deepak Jalan:** Yes, because there are no conflicting products and all the products are complimenting each other, so there is no problem.
- Himanshu Upadhyay:** One small thing, exports were nearly 100 crores at one point of time. It had been continuously coming off. It was again a very strong margin for in many of the geographies. What was the contribution of revenue from that? And is export now secondary to us because in last few quarters we have not heard anything and even in the current PPT or press release nothing has been spoken about exports. So, what are your thoughts on exports?
- Deepak Jalan:** I'll just tell you that, see pre-COVID levels our exports was 80 crores and in FY22 we closed that 76 crore. So, which is almost pre-COVID level. We have actually gained in terms of exports despite the situation being same all over the world. Our focus on export has actually increased and from 100 crores to 80 crores, the reason has been that couple of markets, they were closed because of tariff barriers in those countries. That was a reason that we lost about 20 crores of export revenue. So, countries like Iran or Egypt or Turkey so such markets they were closed. But we are trying to make up the loss by penetrating deeper into our existing markets and opening some new markets.
- Himanshu Upadhyay:** I'll join back in the queue. In Pentonic range, we had Rs. 10 and Rs. 20 product which was launched in a FY20. But is there something we are thinking on Rs. 15 the price point also and what innovations are you thinking on those Rs.10-15-20 and where you have stated the growth is generally higher.
- Deepak Jalan:** Himanshu actually as you rightly said we already have a Rs. 10 and Rs. 20 Pentonic ball pen. As a matter of fact, we are launching a retractable gel pen at Rs. 30 in the month of June. So,

that is at Rs. 30. There is another product in pipeline which will be also a gel pen with a cap which will be at Rs. 20. We are looking at price points in the multiple of Rs. 10 because in our industry we have seen that Rs. 15 price point does not really work so much. So, this is our strategy going forward.

Moderator: The next question is on the line of Hemant Kotadia from Anvil.

Hemant Kotadia: The company has embarked upon increasing its POP by reaching out aggressively to non-stationary outlets like Kirana stores. So, do you really think that each Kirana store will give you enough volume to justify the cost of acquisition and subsequent distribution cost?

Deepak Jalan: Right. So, Hemant in Hindi we have a saying, '*boond se ghada bharta hai*'. So, the stationary outlets in India are estimated to be about 2 lakh outlets while the Kirana stores are in excess of 1 crore outlets. A study says that 45% of the pens are sold from non-stationary outlets. As you rightly said that the consumption or the throughput of each non-stationary outlet would be very small and the cost of servicing maybe I which you are absolutely right. But our distributors who are already servicing stationary outlet in their territory to serve these non-stationary outlets in the same beat or same territory is actually not much of an extra cost for them. I think it shouldn't be any problem, of course while we are enrolling those outlets or reaching them for the first time. The cost of this is high certainly. As I mentioned in my remarks that the new customer acquisition cost is high but subsequently servicing those outlets will not be much of a problem.

Hemant Kotadia: And are we alone the brand which are serving in through Kiranas or we have competitors?

Deepak Jalan: Yes. We are the only company as of now because definitely the initial costs of reaching out to these outlets is really very high. It's not possible for every other company to absorb those costs because typically the industry profitability if you leave Pentonic aside, it's only about 25%. So, it's not possible for every company to really venture into this but since we have this support of Pentonic profitability we are able to take this initiative.

Hemant Kotadia: So, can you believe that is there any costs associated with this get accounted in last year's P&L because of that expansion?

Deepak Jalan: Yes of course. We've been investing heavily in this reach expansion. So, of course, that cost has already been affected in the P&L.

Hemant Kotadia: So, if the volumes will pick up then we will see margin increase.

Deepak Jalan: Yes absolutely.

Hemant Kotadia: One small observation what you get the data like last year's due COVID what would be the digitalization happened in our core area basically, the pen is basically a thing that one can physically want basically.

Deepak Jalan: So, Hemant, this digitalization thing I have been hearing actually, I've been getting this question for last more than 20 years frankly speaking that what is the future of pen while the digitalization is rapidly growing worldwide. But even during the COVID period there were online classes because there was no choice but actually everyone believes and which is also a fact that a child development cannot be under online classes. They have to have offline classes. They have to go to the schools, attend physical schools and colleges. So, I think pen is a necessity. We are actually not really very concerned at least in the medium term about the future of pen.

Hemant Kotadia: And one last question. What will be the new product line you're planning after 3 years or 3 years? What's the growth plan?

Deepak Jalan: So, I'm not able to really visualize what products are we going to launch in 2 to 3 years' time. But certainly, as I mentioned to other query, that we are launching, see even today our market share in the writing instrument is very small, it's less than 8%. I believe that any forward-looking company should have at least 20% market share even though it's quite a fragmented industry or category. But we believe that we still have that much room to really grow. We strongly believe that we'll continue to develop more products in writing instruments under Pentonic brand. That's for the time being our strategy.

Hemant Kotadia: On the questions related to your answer, so how we will improve our market share by going deeper into the distribution network or how actually?

Deepak Jalan: As I said that we are targeting a minimum of 5 lakh outlets by FY25. So, it's all by distribution frankly speaking, of course we also spend a decent amount, we also invest a decent amount in brand awareness. I think coupled with the brand awareness and new product launch and distribution; we will be able to increase our market share.

Hemant Kotadia: How much advertising or branding expense we had done?

Deepak Jalan: Generally, we have a benchmark of about 3% A to S.

Moderator: The next question is on the line of the Amit Agarwal, an Individual Investor.

Amit Agarwal: My question to you is that how are you trying to position your brand since you're trying to increase your touch points to so many Kirana stores and all. So, do you think that you're trying to build a brand or company or the product line will be for the market? So, my question is to understand that are you going to build a brand for the low segment kind of people or what's your thought on that?

Deepak Jalan: Not really, actually if you, I don't know if you have used the Pentonic you would see that this product is positioned as a, it has a premium positioning and today as you know that the aspirations whether in urban or rural are similar because of the media. So, it doesn't matter a consumer buy from a stationery shop or from a Kirana store in the urban markets or even in rural markets. So, for a Rs. 10 product or a Rs. 20 product if it is sold from Kirana, we don't believe

that it is going to affect its positioning. Definitely a pen like a Cross cannot be sold from a Kirana store but for a Rs. 10-Rs. 20 or a Rs. 30 pen I think it shouldn't be any problem.

Amit Agarwal: My next question is that do you think that it's really wise to spend on new capacity while the world and specially the education sector is going digital? What are your views?

Deepak Jalan: Yes so, I already answered this query. As I said that, Amit I'm facing this question for last 20 years, the similar anxiety amongst people but the industry has grown every year even though in low single digits. We believe that the developing countries or developing nations where the population is increasing and the literacy is increasing, while the buying power is low, the pen is going to be there. And for as I said for the child's development, writing is very important which I think everybody believes in to that. I think it's going to be pen is going to be here for really a long time. So, this is what is our belief and yes.

Management: Also, Amit the education market in India is expected to grow at 14% per annum over the next few years. That itself is going to create a huge market for pens no matter and specially you have seen the moment that schools have started opening, you are seeing the pressure on the likes of BYJU's and Vedantu and all, we have seen that. Everybody wants to go back to school.

Moderator: The next question is from the line of Himanshu Upadhyay from O3 Capital.

Himanshu Upadhyay: I was asking one question that in Pentonic range we launched product in early CY-FY20. It was Rs. 10 and 20 range but anything beyond that we can do on Rs. 15 again which is a price point which from where a growth can be, is generally higher what you have stated in your presentation also and even in Rs. 20? And how important is to launch new products every year or every alternate year? So, that growth momentum keeps on happening means any of your thoughts on that will be helpful?

Deepak Jalan: I already answered a query that a Rs. 15 in our industry is not a very consumer friendly price point. So, we rather decided to focus on Rs. 10 and Rs. 20 and then of course we are going to launch a Rs. 30 product in June this year. So, this is our strategy and definitely we have to introduce at least one superstar product every year but maybe even two products. Like this year we have planned two products under Pentonic; one in June and the other in Quarter 3. There has to be a lineup of new introductions every year or every half year.

Himanshu Upadhyay: One thing. In this Rs. 10,000 crores market of writing instruments; which would be the largest brand? Or even in your 30 years of history in this business what do you think can be a size of a large brand, single product-single brand. It's a Pentonic ballpoint pen, Rs. 20 pen. What do you think can be the size of single product-single brand?

Deepak Jalan: So, at one point of time, there used to be a Reynolds 045 which used to be a single largest product selling in India. That was about 20 years back and similarly there were some products from Cello which were quite a single, big product and I'm glad to say that today Pentonic is, if not the largest, it must be the second largest or actually even the largest single product in India and it

has grown rapidly as you know that we launched it in FY19 not FY20 and within 3 years despite the COVID interruption, it's already a Rs. 80 crores brand and soon it's going to be Rs. 100 crores brand. So, I think it's going to grow, we are increasing capacity of Pentonic ball pen and it's going to be the largest single pen brand and going to remain therefore I think a long time.

Himanshu Upadhyay: Can we say that the largest product category or let's say Reynolds 045 whenever it was peak or Cello as you stated were able to get 5% of the overall market? Was that the type of situation when they were at peak or you think?

Deepak Jalan: Not really 5% but certainly about 2% to 3% a single product, we are talking of the single product.

Himanshu Upadhyay: Yes, single product. One more thing. In case of Pentonic the pricing premium and the strength what we are able to get in domestic market; are we seeing the similar strength and premium in export markets or the exports remains the traditional Linc products only currently?

Deepak Jalan: No certainly. So, fortunately, there was initial resistance because the Pentonic is not as cheap as the other legacy products of Linc. So, we initially we had to face some resistance from all our customers across the world but we pushed them to buy smaller quantities initially and today in every order the share of Pentonic is increasing and the share of Pentonic, the legacy product is decreasing which is good news for us because as I mentioned the margins in the legacy products are much lower. It's really fortunate for us that Pentonic has been accepted across the world.

Himanshu Upadhyay: So, all geographies where we are exporting Pentonic is also there. Would it be right to say?

Deepak Jalan: Yes absolutely.

Moderator: The next question is from the line of Sameer Dalal.

Sameer Dalal: Actually, I had a question regarding your pens business. You're expanding your capacity. What is the current utilization rate of your existing capacities?

Deepak Jalan: So, Sameer we have about 40% to 50% of our production is in-house and the remaining is outsourced so it's almost 50-50 you can say. So, we are currently so we have some flexibility so we are currently able to utilize almost 100% of our in-house capacity.

Sameer Dalal: Going forward these 5 lakhs that you will be adding by when will that get commissioned you said?

Deepak Jalan: That was by Q4 of '24.

Sameer Dalal: So, 2 years down the line?

Deepak Jalan: Yes, right.

Sameer Dalal: For the immediate growth whatever will have to come, will have to come from outsourcing, am I correct?

Deepak Jalan: Yes, right, absolutely. We are increasing our outsourced capacity.

Sameer Dalal: Now my question is what are the margins like on your outsourced pens versus the ones you manufacture in-house because if your plan is to go up to the 20 lakh pens and you're producing 50% outside why not do it right away and shift some of the production in-house? Why continue to outsource if the margins are better there?

Deepak Jalan: So, well as I mentioned that we are increasing our in-house capacity. So, there is a lead time of about 2 years as you know, building the plant and then getting the machineries. So, soon over this COVID situation was over, we initiated this step of increasing our in-house capacity. But I also believe that it's good to have a mix of both outsourced and in-house capacity and the margins, yes so maybe we are sharing or let's say on outsourced capacity our margins are lesser by 2% to 3%. So, which in a way I think is good that we have more flexibility. We have lesser a CAPEX so this is what is our belief.

Sameer Dalal: I have one more question in regarding your working capital. Now that you're going to start working with these Kirana stores and increasing your reach. How would that affect the working capital cycle of the company if at all?

Deepak Jalan: Actually, there is no effect on our working capital cycle because when we sell to our channel partners...

N.K. Dujari: Rather I will say Sameer this is positive effect because if the inventory will be churn more faster...

Deepak Jalan: Faster and on the other end our payment terms from our channel partners is like, it's like a cash down so within 2-3 days we get our payment.

Sameer Dalal: Even the increase to all these new you will not need to extend any sort of credit to anybody?

Deepak Jalan: No.

Sameer Dalal: If any other questions in the queue we can take them otherwise I think we can end the call.

Moderator: The next question is from the line of Saurabh Bhutra from IIFL.

Saurabh Bhutra: My question is on the one part only that is I am seeing your return on capital employed. Return on capital employed from last five quarters is still nowhere to 20%. Can you throw the color on this?

N.K. Dujari: You're right. Return on capital is low right at the moment. But the best time was FY20 when we had the full Pentonic benefit in FY20. So, going forward I think during the COVID times we

had this issue. Low returns, now going forward we should have a positive effect on the return on capital and when we are targeting ROE of 18% by FY25 so I think return on capital will be also close to that 20% range by FY25.

Saurabh Bhutra:

And second and a last question is that is what is your debtor days?

N.K. Dujari:

Debtors days right now is around 35 approximately. In the domestic generated business, we have around 3 to 4 days of debtors but in the export business we have around 35 to 40 days of debtors and in the modern trade we have around 90 days. On an average it works out to around 30-35 days. And in export in certain markets, we have little higher also.

Saurabh Bhutra:

But the average is about 30-35.

N.K. Dujari:

But the positive side is coming from the general trade and the higher debtor turnover is actually from the modern trade and export business.

Moderator:

We will move on to the next question that is from the line of Varun Bang from White Stone.

Varun Bang:

I'll just try to ask my question. Like we have seen in case of Reynolds, it was a hit product but then the product and the design lost its momentum. What do you think went wrong here and now that Pentonic will be Rs. 100 crores brand, how difficult it will be for us to sustain the leadership here? Some new brands, some new design can disrupt the market again. Does that bother you?

Deepak Jalan:

Well, we have observed that if a product, a well-designed product has a very long life-cycle even 20 years-30 years in case of a brand from France which is BIC, that BIC Cristal pen or a BIC Stick pen though they are selling for last more than 40 years. If it is a minimalistic designed and contemporarily designed the life cycle is really long. And Pentonic ballpen has been designed in such a way that it has a very long-life cycle. Nevertheless, as I mentioned that we continue to develop new products under Pentonic. If there is some slackness in our existing product, our own product can replace the product but for now we are actually in the mode of increasing capacity of our Pentonic ball pen. So, I think we still have a long way to go. I mean because it's just a 3-year-old brand, I think for at least for 10-15 years we should not have any concern.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Management:

Thank you Sameer and thank you all the participants for taking out time in the evening and joining the call. If you have any more questions, please do reach out to Mr. Dujari who will be available to kind of answer your queries. All the best and have a great evening. Thanks a lot for joining the call once again. Thank you.

Moderator:

Thank you. Ladies and gentlemen on behalf of Natverlal & Sons that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.