

25th September, 2020

The Listing Department, The Calcutta Stock Exchange Ltd. 7, Lyons Range, Kolkata – 700 001	The Manager The Department of Corporate Services, BSE Limited, P. J. Towers, Dalal Street, Mumbai – 400 001	The Manager, The Listing Department, National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051
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Dear Sir,

Re : MD's Speech at 26th Annual General Meeting

Please find enclosed herewith the Speech delivered by Managing Director at the 26th Annual General Meeting held on 25th September, 2020

Thanking You

Yours faithfully

For LINC PEN & PLASTICS LTD.



N. K. DUJARI
Chief Financial Officer &
Company Secretary

Encl: as above

MD's statement for AGM

Good morning shareholders, colleagues, ladies & gentlemen

We are holding this meeting over a virtual platform due to the COVID-19 pandemic. I would like to thank you all for sparing your time to join us today from wherever you are.

As I speak, the infection rate continues to rise in several parts of the country, but we are all learning to live and work in the changed circumstances. The advent of a few new medicines provides welcome relief and there is hope that a vaccine might be available before the end of this calendar year. I would like to take this opportunity to salute the undying spirit of the Government authorities, healthcare workers, police, and the public, in fighting this pandemic.

Until February 2020, Linc Pen was on track to deliver its best ever performance in terms of revenue and profitability, when the country began witnessing early signs of the pandemic. And then with the country wide total lockdown from 23rd March 2020, **FY20 ended abruptly**. At the same time, it became clear that the ensuing quarters would be challenging periods as well.

Despite the loss of sale in the last weeks of FY20, I am pleased to report that the Company delivered good results in FY20. Revenue grew by 9% to close at almost Rs. 400 crs. EBIDTA margin was in double digit at 10.3%. PAT of Rs.19.25 Crs, registered a healthy jump of 273.8% over a lower base of Rs.5.15 Crs in the previous year. The Board recommended a **Dividend of Rs.1.50 per share**, same as last year, in view of **unprecedented challenges ahead in FY21**.

F20 results are **best ever achieved** by the Company. It was the first full year of performance of Pentonic. The success of this brand strengthened the Company's revenues,

margins, brand, and most important, confidence. It has provided an opportunity for the Company to improve its distribution landscape. We expect similar benefits to accrue in the foreseeable future as well. We have an **aggressive plan to enhance our retail footprints** from 65000 retail touch points to about half a million, helping the Company to embark upon a multi-year growth journey.

In FY21, the writing instruments industry has been severely affected by the Covid-19 Pandemic. Closure of educational institutions and commercial establishments operating with lower physical attendance have impacted demand for writing instruments. The situation is similar all over the globe, with trade disruptions and lockdowns in several countries.

During Q1 of FY21, Company's **growth momentum was interrupted**. Turnover at Rs.27.52 Crs, was about 1/4th of normal levels. For the first time ever, we registered a negative PAT of Rs3.99 Crs. Company's April and May sales were washed out because of the nationwide lockdown. Our factories were closed for 28 days, and thereafter, gradual resumption started once the lockdown was lifted in a phased manner. Currently all 3 factories of the Company are running at about 50% utilization. During the lockdown period the Company –

- Implemented work from home to the extent feasible
- Took all necessary steps to ensure good health and safety of our team.
- Moderated all possible costs including manpower costs – making it semi variable.
- Preserved cash flows of the Company.

In June, the company saw sales come back to more than 50% levels of what it reported in the same month last fiscal (June 2019).

The Company was able to **bring down the total borrowings** (term loan + working capital) from Rs.61.04 Crs in Q1-FY20 to Rs.41.43 Crs in Q1-FY21.

Outlook

The worst seems to be behind now and the Company expects to report a **gradual rebound** in the ensuing quarters. **Unprecedented market challenges** however continue to remain in the near-term. Timeline for re-opening of educational institutions is still uncertain. In the current scenario, we may end FY21 with at least 70-80 per cent of FY20 sales. I am confident that we will **navigate this difficult stretch** of our journey proficiently and would emerge much stronger. We hope to catch-up with the **growth momentum from Q4 – FY21** onwards.

Few pertinent Points about the Writing Instruments Industry & Linc Pen

Industries with **moderate government regulations** and minimal intervention are preferable since they are predictable and allow the forces of free markets to play out and we are lucky to be in such an industry.

The stationery industry is comparatively **immune to economic cycles** unlike sectors like airlines, cement, metals, infrastructure, housing etc. and hence promises of relatively stable financial performance.

The attractiveness of the industry that a company belongs to has an important bearing on the company's own fortunes and in this context, I wish to inform you that Stationery products market garnered a revenue of USD 109.5 billion in the year 2019 globally and has been foreseen to yield USD 154.1 billion by the year 2027 at a CAGR of 4.6% over the forecast period. Since Linc pen has a meagre share of the overall global market, there is a **huge tailwind for increasing the market share.**

Though the industry may not be a high growth industry, there lies an ample scope of **premium-isation**, which may lead to a much better value growth for the companies which are able to leverage this opportunity and Linc pen is rapidly increasing the share of value added products in it's overall product basket and Linc Pentonic ball pen is the testimony.

The company has long track record of delivering innovative products. Even though the innovations are generally replicated by competition after a certain period, Linc products, having first mover advantage, mostly command premium on similar offerings from competition. Moreover, a product can be quickly outdated, but a successful brand is timeless. Linc pen **spent Rs.44 crores in advertising and promotion in last 5 years**.

Linc pen has invested heavily in technology to grow it's distribution rapidly to create **sustainable competitive advantage** over it's peers. Progress in this direction & more details in this regard shall be shared in our quarterly updates from time to time.

As a policy, low value-addition processes are outsourced to a large extent, while the company's resources are used for higher value-addition processes, like branding & distribution.

The company has a strong track record of **efficient capital allocation**, and as such does not rely frequently on raising funds (via either equity or debt). As a result, Linc pen is geared to deliver **better return ratios**. The **cash flow from operations/EBITDA** for last two years is close to 1, which is the best in our industry. The Company is focused on increasing ROE, which at present is 14.1%.

After ploughing back sufficient funds for the core business, we believe in paying out dividends to shareholders, rather than hoarding cash. We are more a shareholder – friendly

company and have regularly paying dividend without a single year gap, since inception. During FY 11 – 20 - in last **10 years, Linc pen had an average dividend payout ratio of 30%**. The promoters are focused on it's core business and do not have any other business interests.

CSR Activities

The Company's CSR spent during FY20 was at 2.2% of the average profits well above the minimum requirement of 2%. In addition to this, as a responsible corporate citizen, the Company is involved in various other CSR activities, which are not covered under the prescribed CSR guidelines.

In conclusion

In conclusion, I express my gratitude to the Board members for their wise counsel and guidance, while adhering to **highest standards of corporate governance**, which is evident from various disclosures in the Annual report, along with diverse financial ratios. I would like to acknowledge the relentless dedication and contribution of our channel partners, distributors and employees. On behalf of the Board, I thank you shareholders, for your continued support as we steer the Company through these tough times to build a brighter future.

My best wishes to you and your families. Stay safe, stay healthy.

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