

Kokuyo Camlin Ltd.

₹ 45

*Created in Japan ; Made in India***Buy**

Jan 18, 2013

Company Background

Established in 1931 Camlin has a profound legacy of more than 80 years in India. Initially it was manufacturing Horse Brand Ink and Tablets which followed to creation of its flagship brand Camlin in 1946. Over years Camlin has expanded into art, scholastic and hobby materials, office stationery and Corporate Gifts. Camlin today is one of the most well known and trusted brand in India with around 2100 products reaching 55 million Households. In May 2011 Kokuyo a Japanese Enterprise joined Camlin by acquiring a Controlling stake to create Kokuyo Camlin Ltd. With a focus to the future and a clear goal to leverage existing strengths and presence. Kokuyo Camlin Ltd. is all set to put forth a new chapter in Asia's Stationery Business.

Key Highlights

- ➔ During FY 2012 Camlin reported income from operations of Rs 3839 mn as compared to Rs 3583 mn for the last year representing marginal growth over the previous year. Profit before tax for the year ended 31st March, 2012 was Rs 15.8 mn against Rs 120 mn of the previous year. The main reason for decline in profitability was on account of increase in Sales and Marketing spend & other operating expenses including employment of good manpower.
- ➔ Camlin had executed Share Subscription & Joint Venture Agreement between the Company, its Promoters and Kokuyo S&T Co., Ltd. Japan (a 100% subsidiary of the \$ 3.2 bn Kokuyo Group with business in Asia EU & China). In terms of the said Agreement, Kokuyo has acquired 3,48,36,220 Equity shares of ₹ 1/- each worth 50.27% Equity stake and voting rights in the Company.
- ➔ Camlin is revamping its sales network to double its direct reach in next two years. It wishes to emerge as a strong player not only in metro cities but also in Tier I, Tier II and Tier III cities which are emerging as fast-growth markets in India. A recruitment process is under way wherein the direct sales force team will increase by 50%% from 600 to 900.
- ➔ Products like scholastics colours, artist colours, school stationery and technical instruments have been a forte with Camlin. These will now be exported to many other geographies where Kokuyo already has a strong presence.

Key Financials

| Year Ended 31 st | Mar 10 | Mar 11 | Mar 12 |
|-----------------------------|---------|---------|---------|
| Revenue (INR mn) | 3,312.4 | 3,583.3 | 3,869.2 |
| Rev. growth (%) | 16.67 | 8.18 | 7.98 |
| EBITDA (INR mn) | 283.9 | 265.2 | 161.3 |
| Net profit (INR mn) | 120.4 | 85.9 | 13.4 |
| Shares outstanding (mn) | 60.3 | 61.1 | 68.9 |
| EPS (INR) | 2.0 | 1.4 | 0.2 |
| EPS growth (%) | 96.24 | (29.60) | (86.18) |
| P/E (x) | 12.6 | 37.6 | 177.1 |
| RONW (%) | 21.0 | 13.0 | 0.6 |
| ROCE (%) | 12.2 | 7.9 | 0.4 |

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Info Codes

| | |
|-----------|--------------|
| Reuters | : CAML.BO |
| Bloomberg | : CAMLN@IN |
| NSE | : KOKUYOCMLN |
| BSE | : 523207 |

Market Data

| | |
|----------------------|-----------|
| 52 Wk Range (₹) | : 51 / 32 |
| Shares in Issue (mn) | : 68.9 |
| Mkt. Cap (₹ bn) | : 3.13 |
| BSE 2 Wk Avg Vol | : 44000 |

Share Holding Pattern (%)

| | |
|-----------|---------|
| Promoters | : 63.97 |
| DII's | : 00.01 |
| FII's | : 4.74 |
| Others | : 31.28 |

Investment Theme

Most of us know Camlin from their Childhood days. We went to school with all its products. For many a years the company appeared to stagnate with no new introductions, no innovations, etc. Which favoured competition. However now with the transfer of control to a Japanese Management. Camlin is all set to come out of the Stationery business. Camlin has planned a good business expansions and has already got in an exercise of raising capital by Preferential allotments and Rights Issue. There is a lot of quality and operational restructuring going on which is impliedly shown in the reduction of PAT due to increase in Operational Incomes. The Japanese are known for their Quality and Innovation. With the induction of such an enterprise into Camlin the company would now be able to use its Brand & Strong Network for the much needed growth.

A Brand which makes you nostalgic

Financial Statements

Income Statement

(₹ mn)

| Year end | Mar 10 | Mar 11 | % Chg | Mar 12 | % Chg |
|----------------------|--------|--------|----------|--------|-----------|
| Total Sales + Excise | 3399.9 | 3669.0 | 7.91 | 3973.1 | 8.29 |
| Other Income | 2.3 | 0.2 | (91.30) | 30.1 | 14950.00 |
| Change in Stocks | 97.7 | (10.1) | (110.34) | 286.9 | (2940.59) |
| Raw Material Con. | 383.4 | 1262.0 | 229.16 | 1416.9 | 12.27 |
| Employee Exp. | 305.2 | 352.5 | 15.50 | 418.3 | 18.67 |
| Indirect Taxes | 94.7 | 88.2 | (6.86) | 136.7 | 54.99 |
| Other Exp. | 2432.7 | 1691.2 | (30.48) | 2156.9 | 27.54 |
| Operating Exp. | 3118.3 | 3404.0 | 9.16 | 3841.9 | 12.86 |
| Operating Profit | 281.6 | 265.0 | (5.89) | 131.2 | (50.49) |
| Total Interest | 58.3 | 74.3 | 27.44 | 79.6 | 7.13 |
| Gross Profit | 225.6 | 190.9 | (15.38) | 81.7 | (57.20) |
| Net Dep. | 61.9 | 70.9 | 14.54 | 64.2 | (9.45) |
| Total Taxation | 43.3 | 34.1 | (21.25) | 4.1 | (87.98) |
| Net Profit/Loss | 120.4 | 85.9 | (28.65) | 13.4 | (84.40) |

4 Years Balance Sheet

(₹ mn)

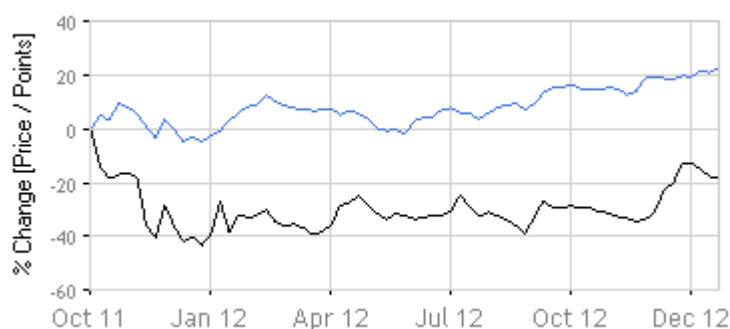
| Balance Sheet as on 31 st | Mar 09 | Mar 10 | Mar 11 | Mar 12 |
|--------------------------------------|--------------|----------------|----------------|----------------|
| SOURCES OF FUNDS | 928.4 | 1,049.7 | 1,143.3 | 1,735.0 |
| Equity Share capital | 60.0 | 60.3 | 61.1 | 68.9 |
| Share Application Money | 0.0 | 0.0 | 0.0 | 0.0 |
| Preference Share Capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves & Surplus | 474.6 | 563.6 | 646.6 | 1,250.0 |
| Long Term Loans | 127.9 | 87.9 | 61.8 | 3.4 |
| Short Term Loans | 265.9 | 337.9 | 373.8 | 412.7 |
| USES OF FUNDS | 928.4 | 1,049.7 | 1,143.3 | 1,735.0 |
| Gross Block | 783.4 | 899.0 | 1,044.2 | 1,103.3 |
| Less : Revaluation Reserves | 0.0 | 0.0 | 0.0 | 0.0 |
| Less : Accumulated Depreciation | 323.4 | 343.3 | 390.4 | 445.0 |
| Net Block | 460.0 | 555.7 | 653.8 | 658.3 |
| Capital Work in Progress | 22.5 | 18.9 | 0.8 | 3.8 |
| Investments | 7.7 | 12.6 | 22.9 | 22.1 |
| Current Assets | 958.6 | 1,254.1 | 1,328.1 | 1,936.9 |
| Less : Current Liabilities | 537.1 | 791.6 | 862.3 | 886.1 |
| Total Net Current Assets | 421.5 | 462.5 | 465.8 | 1,050.8 |
| Misc. Expenses not written | 16.7 | 0.0 | 0.0 | 0.0 |
| NOTE | | | | |
| Bk Val Unquoted Investments | 7.2 | 12.1 | 21.9 | 21.1 |
| Mkt Val. Quoted Investments | 1.6 | 4.5 | 5.4 | 9.0 |
| Contingent Liabilities | 85.2 | 62.4 | 74.3 | 78.3 |
| Dividend (%) | 30 | 50 | 25 | 0 |

Quarterly Income Sheets

(₹ mn)

| Quarter Ended | Dec 11 | Mar 12 | Jun 12 | Sep 12 |
|-----------------------|---------|----------|----------|---------|
| Net Sales | 755.00 | 1,132.60 | 1,408.90 | 870.10 |
| Cost Of Sales | 773.10 | 1,112.10 | 1,386.60 | 913.20 |
| Operating Profit | (18.10) | 20.50 | 22.30 | (43.10) |
| Recurring Income | 2.30 | 2.10 | 1.20 | 0.70 |
| Adjusted PBDIT | (15.80) | 22.60 | 23.50 | (42.40) |
| Financial Expenses | 12.50 | 20.80 | 22.20 | 18.50 |
| Depreciation | 17.30 | 17.80 | 19.00 | 18.90 |
| Other Write Offs | 0.00 | 0.00 | 0.00 | 0.00 |
| Adjusted PBT | (45.60) | (16.00) | (17.70) | (79.80) |
| Tax Charges | (1.00) | (4.60) | (5.80) | (21.40) |
| Adjusted PAT | (44.60) | (11.40) | (11.90) | (58.40) |
| Non Recurring Items | 11.30 | 5.40 | 0.00 | (2.00) |
| Other Non Cash Adjust | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Profit | (33.30) | (6.00) | (11.90) | (60.40) |

52 Week Index Relative Percentage Appreciation



CAMLIN vs SENSEX

Who is Kokuyo

Kokuyo is over a century old Japanese Business House founded in 1905 in Osaka Japan. It started as a traditional book cover makers of Wacho (traditional Japanese Account Books). Kokuyo today is a \$ 3.2 bn business group with businesses spread over Asia, European Union and China, Hongkong, Thailand, Singapore, Malaysia and Vietnam. Its main product lines include Office Stationery, especially Notebooks, Office Supplies and Office Furnitures. The Company is Officially listed in Osaka and Tokyo stock Exchanges. The Companies flagship brand is Kokuyo is a household name in Office stationery products and furniture. The synergy of Camlin with Kokuyo leverages to supplement Camlin's Expertise, Reach and Brand-Equity of the Indian Markets, with Kokuyo's Innovative new Office Stationery Products, a world class Research & Development and an extended reach to Europe and Other Asian Geographies.

Risks Associated

The industry has been facing rising input costs over the last few years. The increase has been both in the cost of raw materials as well as in financing and marketing costs. Further, due to competitive pressures, particularly from Chinese imports, these increases cannot be passed on to the consumers. Another challenge that is facing the industry has been in the introduction of new and innovative products. The nature of the industry is such that consumers demand 'something new' every day, and as such, the industry needs to meet consumer needs. Over all the Consumer to these commodities is highly price sensitive and preparing a drive in for quality over price would be very difficult in the long run. Further there is intense competition springing up in the Stationery segment both from Organised & Unorganised sectors.

In a Nutshell

India is considered to be the world's largest market in terms of growth in the young population with a significant population under the age of 25 years. This is a clear indication of the huge potential in the Indian education sector. The education space is expected to cross US \$50 bn mark by 2015. The education sector has grown at an accelerated rate over the last few years. Also, the expenditure on education as a proportion of GDP has increased from 2.72% in 2006-07 to 3.11% in 2011-12. Budgetary allocation for education has also been increased by 21% to Rs 740 bn in 2012-13, which is expected to drive the stationery market. The government has also initiated various Educational Schemes which mark a focus of its spend on Education. The Art and Hobby Craft market in which Camlin ventures is also showing significant growth with increased recognition of Indian art in the world markets, which is in turn inspiring and encouraging Indian artists to create works that are at par with the best in the world. The Scholastic and School user segment is also fast growing in line with growth in the number of primary schools. The size of stationery market in India is approximately about Rs. 110 bn, out of which India's notebook market is valued at about approximately Rs.50.bn. The overall Indian stationery market is growing annually above 10%. Looking at the current strength of products and a strong distribution network with nearly 3 Lac touch points, coupled with a synergy from Kokuyo Japan. The success of Camlin in future can be in a very less doubt. We feel The synergies will result in numerous benefits that include lowering of costs, expansion of product portfolio, expansion to new geographic markets, faster rollouts of new products developed through joint design and R&D.

Indira Group Offices

| | |
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Rating Interpretation

| | | | |
|-------------------|---|-------------------|---|
| Buy | : Expected to appreciate 20% or more over 12-months | Reduce | : Expected to depreciate up to 10% over 12-months |
| Accumulate | : Expected to appreciate 10% to 20% over 12-months | Sell | : Expected to depreciate 10% or more over 12-months |
| Trade Buy | : Expected to appreciate more than 10% over 45-days | Trade Sell | : Expected to depreciate more than 10% over 45-days |

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