TCPL packaging limited

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30.05.2022

The Bombay Stock Exchange Ltd
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001
Security Code:-523301

The National Stock Exchange of India Ltd
Exchange Plaza, Plot No. C/1, G Block
Bandra Kurla Complex,
Bandra East, Mumbai 400 051
Trading Symbol:- TCPLPACK

Dear Sir(s),

Re:- Transcript of Investors Conference call

Please find enclosed the transcript of Conference call held on 25.05.2022, with the Investors and Analysts.

The transcript of the conference call has also been posted on the Company's website at www.tcpl.in.

Kindly take the same on record and acknowledge the receipt.

Thanking You

For **TCPL Packaging Limited**
SOHAN GAMANLAL NANAVATI
Digitally signed by SOHAN GAMANLAL NANAVATI
Date: 2022.05.30 10:28:09 +05'30'
Compliance Officer

TCPL Packaging Limited

Q4 & FY22 Earnings Conference Call Transcript

May 25, 2022

Moderator: Ladies and gentlemen, good day and welcome to TCPL Packaging Limited's Earnings Conference Call. 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. Please note, that this conference is being recorded.

I will now hand the conference over the Mr. Anoop Poojari from CDR India. Thank you, and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone and thank you for joining us on TCPL Packaging's Q4 and FY22 Earnings Conference Call. We have with us today Mr. Saket Kanoria, Managing Director; Mr. Akshay Kanoria, Executive Director; Mr. Vidur Kanoria, Associate Director, and Mr. Vivek Dave, GM Finance of the Company.

We would like to begin the call with brief opening remarks from the management, following which we will have the forum open for an interactive question-and-answer session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the invite shared with you earlier.

I would now like to invite Mr. Saket Kanoria to make his opening remarks.

Saket Kanoria: Good afternoon, everyone, and thank you all for joining us on this conference call for the quarter and full year ended March 31, 2022. I trust all of you and your families are keeping safe and are in good health. I will initiate the call by taking you through the operational and financial performance, after which we'll open the forum to have a question-and-answer session.

We have concluded the year on a very strong note despite a demanding macro environment. I'm very pleased to report that TCPL for the first time has crossed a milestone revenue of INR 1,000 crore in a financial year and over INR 300 crore in one quarter. On a standalone basis, in quarter four FY22 total revenue grew by 31% to INR 322 crore as against INR 246 crore in the corresponding period. EBITDA has improved by 38% to INR 48 crore, translating into a margin of 15%. For the full year, total revenues grew by 19% to INR 1,076 crore in FY22 as against INR 904 crore in FY21. EBITDA has also grown by 17% to INR 157 crore, translating into a margin of just under 15%.

Given the challenging operating condition, TCPL has showcased remarkable adaptability and achieved yet another quarter of sustained performance. Although, we continue to witness raw material inflation, we are able to mitigate the impact on our margins by taking adequate measures, limiting the impact on our total profitability. PAT and cash profits stood at INR 18.5 crore and INR 39.4 crore respectively during the quarter. In FY22, PAT and cash profits stood at INR 49 crore and INR 125 crore, respectively.

Here I'm pleased to inform that in line with our consistent dividend policy, the Board of Directors have recommended a dividend of INR 10 per share. This dividend payout is the 22nd continuous year of dividend payout by the company. It is also the highest dividend payout ever made by the company.

On a consolidated basis for the full year ended FY22, total revenue and PAT stood at INR 1,088 crore and INR 47 crore, respectively. The consolidated figures are not comparable year-on-year due to the acquisition of Creative and its integration from December 2021 onwards. While Creative is currently PAT negative, we believe that we should be able to turnaround the company in a few months as benefit of scale, cost optimization measures, and other synergies start contributing to the performance. Moreover, post the acquisition, we have invested in modernizing the facility and optimizing the process, in addition to meeting the company's working capital requirements. Overall, the rigid box is a high segment potential and value-added segment used in several end-use industries, including the fast-growing smartphone market. So, we remain very excited about this opportunity.

On the operational front, we are delighted to announce the successful commissioning of our second line in the flexible packaging unit at Silvassa. The facility has effectively doubled the segment's capacity, and the plant also comprises of a new 10-color gravure printing press and other ancillary equipment. As indicated in previous calls, we expect to optimally utilize the new line over the next 12 months. Furthermore, TCPL Innofilms Private Limited, the company's wholly owned subsidiary, has commenced trial production at its new film line, also at Silvassa.

With the rise of sustainable packaging awareness among large brands and consumers globally, we expect demand for our product to increase in the coming years. Therefore, while we remain cautious on account of ongoing external situation, we are confident that the company will grow substantially over the next few years by leveraging its expertise and institutional strength. Given our increased capacity, focus on growth through diversification, and growing demand for sustainable packaging solutions, we believe we should be able to continue registering healthy growth going forward.

I would now request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: The first question from the line of Sourabh Dutta from Minerva India.

Sourabh Dutta: I'm just curious if there has been some sort of a tipping point in domestic folding carton demand because demand has clearly accelerated recently. Paperboard manufacturers have in particular cited elevated food grade board demand. So, it's a little perplexing that a time when FMCG guys are dealing with their own margin headwinds, all of this is happening. So, have you seen any major shift towards paper as far as FMCG food packaging board conversion is concerned?

Saket Kanoria: FMCG food packaging, I don't see any major shift because the basic barrier properties are not met directly by paperboard, but it's a more indirect method of packaging. But certainly, paperboard demand is outstripping growth otherwise in the segment because of many other replacements to plastic products. But I don't think that there is any particular message as such.

Akshay Kanoria: I will just answer. Basically, although FMCG volume growth is a bit weak, as we've all seen from the numbers coming out in this quarter and last quarter, there is a shift towards paperboard not just in India, but more so globally, especially for food products, where things like take away containers and trays and things like that, moving from plastics to paper. So, there is a sort of secular shift towards paper, which has seen a sustained increase and I think that, plus lack of investment in these European and North American mills over many years has resulted in a big gap between demand and supply as far as paper is concerned. So, the Indian paper mills and all are taking advantage of that. As far as our business is concerned, although, the customer like-to-like volume growth has been weak over the last six months, one year, our own demand has grown because we have increased share of business in existing customers and also developed new customers. So, I think that answers your question.

Moderator: The next question from the line Pavan Kumar from RatnaTraya Capital.

Pavan Kumar: Sir, can you give me an idea of what might have been the split between volume growth and realization growth for the year and for the quarter?

Saket Kanoria: So, the volume growth was just under 5% whereas the overall revenue growth is almost 18% for the year, and it's similar for the quarter. It's in fact, higher in this quarter, March ended.

Pavan Kumar: So, volume growth would be still around 4% or 5% or even less?

Saket Kanoria: Yes. 4%, 5%. Volume growth for the year.

Pavan Kumar: Yes, sir. And when are we expecting to start our new Flexible Packaging line? Has it already started?

Saket Kanoria: Yes, the new Flexible line is already started.

Pavan Kumar: Is there any contribution of revenues from there in this particular quarter?

Saket Kanoria: Yes. It was a capitalized only at the end of March. So, it was only a few days. So, there is not really contribution from there.

Pavan Kumar: Okay. And Creative, when was it integrated, sir?

Saket Kanoria: From 4th December onwards.

Pavan Kumar: Is it part of the results?

Saket Kanoria: Yes, it is part of the consolidated results.

Pavan Kumar: Okay. So, the small dip that we are seeing between the standalone and consolidated would be majorly your loss from Creative, is it?

Saket Kanoria: Yes, that's right.

Pavan Kumar: Okay. And any capex plans sir for FY23 and FY24? Anything planned as of now?

Saket Kanoria: Yes, FY23, there is a capex plan. There is some amount of balance leftover from last year and plus we are going to add capacity in our offset carton business. So, we are adding a new line for which we will be investing. Total outlay would be INR 100 crore.

Pavan Kumar: Okay. And basically, the asset turn that can be expected should be around 1.5 to 2, am I right?

Saket Kanoria: That's the minimum we can expect. It should be in fact higher than that.

Pavan Kumar: Okay. And in terms of the raw material prices, what is the trend that we are seeing in Q1, sir? In the sense, are we facing further inflationary headwinds or how is that working?

Saket Kanoria: So, on the paper side, there's a mixed trend, in recycled materials, in fact, pricing has become soft. In fact, it is going down because the Q4 was very, very high, but in virgin board, the value-added board, raw material is still in short supply and their raw material costs are growing. So, there is still inflationary trend. Whereas in the Flexible Packaging segment, in some items, it is still inflationary, like solvents, chemicals, etc. But in basic films, it is currently soft.

Pavan Kumar: Okay. Okay. That's fine. And just one second, sir. Yes. So, margin, at least should be sustainable, right, at least at 14%, 15%, over the medium-term, I'm not asking about the next quarter or so? But in the medium-term, should that be the margin expectation?

Saket Kanoria: Yes, I mean, we have achieved that. So, we don't see any reason why not.

Moderator: The next question is from the line of Vipul Shah from RW Equities.

Vipul Shah: Congratulations sir, on an excellent set of results. Just wanted to understand, previously also on earlier calls, we had this question about whether the company will be able to get back to the 42%, 43% gross margins, which we used to clock earlier. Definitely, at least the gross margins have been stable, but considering the current inflationary environment we are in, do you still believe there is some ground to further increase our gross margins?

Saket Kanoria: Our gross margin is quite close to that figure, if you look at year-to-date, we are almost at 40% roughly, 39%. So, yes, we are close, because the inflation is so high, because the incremental cost to maintain that kind of incremental margin is very challenging. But we are close to that number.

Vipul Shah: One more question, which I had was, sir, are the gross margins better in the Flexible business than the traditional business or is it more or less the same?

Saket Kanoria: No Flexible business gross margin is lower in fact.

Moderator: The next question is a follow up from the line of Pavan Kumar from RatnaTraya Capital.

Pavan Kumar: Sir, I just wanted to understand how frequently are our contracts with our customers negotiated and when did this negotiation last take place?

Saket Kanoria: The customer contract negotiations is ongoing. Some customers are even on a monthly cycle, some are quarterly cycle. Nowadays, because of such high volatility raw material pricing, it is more frequent. Earlier, it could be annual, could be six months, depends on volume and which customer. But in the present circumstance, it is a much shorter time period.

Pavan Kumar: On our base business, or our carton packaging business, can we expect a growth rate of 10% to 15%? Is it possible?

Saket Kanoria: Yes, it's more than possible. It's very possible. In fact, we have been achieving beyond that in the last couple of years, even though COVID was there.

Pavan Kumar: Okay, sir. I mean, there were years, where it looked very difficult for the base business to grow. That's why my question was there. Of course, you have done a great job. Thank you.

Moderator: The next question is from the line of Pratik Kedia from Kedia Securities Private Limited.

Pratik Kedia: Great set of numbers. I just wanted to understand, if you can give your opinion on what's happening with the paper segment? We're hearing about some shutdowns in Europe, like in paper mills, paper prices going up? How does this affect us? And how do you see this playing out going forward?

Saket Kanoria: Yes. Akshay will answer this.

Akshay Kanoria: So, as I said earlier, basically, I think there has been a lack of investment in places like Europe and North America over the last decade. And at the same time, there's a secular shift towards paper and paperboard all over the world because of sustainability and anti-plastic etc. This is more so the case in the virgin paper market because, that is suitable for food contact. And what's happened post-COVID is that this shift has only sort of accelerated. So, there has been a huge increase in demand all over the world for these kinds of materials, which are virgin paper and paperboard. And our Indian mills are taking advantage of that and doing a very robust export business. And as the Indian demand revives, that kicked in as well at the same time. So, you see these virgin board and virgin paper suppliers, really improving their whole prospect.

On the recycle side, what we're seeing is basically the cost pressure, acute cost pressure on account of input costs going up in terms of the wastepaper, other chemical, transport costs, all of that. And these led to a big increase in the prices of those materials. But their market is not as robust in terms of their export and all of that as the virgin guys. So, hope that answers your question.

Pratik Kedia: That does. That does. Thank you. Thank you. I really appreciate that. Just one question and not related to this one. Just wanted to know if you can give me a brief about the competitive landscape right now. Are we facing anything new? There were a lot of companies in the startup space also, which were not manufacturers, but I think direct sellers like Bizongo, and some other players, which were indirect, like Moglix and some others. Do we see them as a competitor or like do we have any competition that we're facing from these companies in any manner or any segments?

Akshay Kanoria: So, in general, our industry is fairly fragmented. It's a multi-thousand crore market. If you ask me what's the size of your industry, particularly no one can say. It's a very fragmented market, dominated by small scale local suppliers, who have old relationships with the customer. And as those customers mature and develop and grow, and they require more stable and value-added suppliers who they can rely on, they come to people like us.

As far as these startups are concerned that's not really had any much impact on our business. And in fact, to some extent, it can be a good thing, because they're not manufacturing, they're not the manufacturer. They are the intermediary. So, they can route these smaller brands and stuff to us and sort of be an intermediary or a middleman. So, to that extent, they are in fact, a good thing. They're not really a competitor, I wouldn't say that.

Moderator: The next question is from the line of Dhruv Shah from Ambika Fincap Consultants.

Dhruv Shah: Congratulations for a really good set of numbers. Sir basically, I have three questions. One on Creative, how much did Creative really contribute to the current quarter?

Saket Kanoria: The Creative contributed INR 9 crore for four months since acquisition.

Dhruv Shah: Right. And what will be your capacity utilization right now?

Saket Kanoria: Capacity utilization there is quite low, about 40%.

Dhruv Shah: Okay. Great. Sir, I have one industry question. Considering the raw material constraints, the industry is facing right now, I'm sure that you would have taken the market share, because FMCG companies are just reporting 1% to 2% volume growth, you guys have reported something around 4% to 5%. Sir, do you think this market share which we have taken is sustainable and going forward, do you see FMCG companies being more loyal to larger players like us?

Saket Kanoria: I think FMCG customers are loyal to people who can deliver on time and quality is right and anyone who services them properly at a competitive price. But having said that, yes, we are picking up market share also because we are adding new customers and within the same company we are adding and also our supply chain is run more efficiently. So, we are getting raw material in time. All these things contribute to this.

Dhruv Shah: Sir, my question was primarily, because we are a very price sensitive industry, because there is no entry to barrier as such at least as far as the paperboard is concerned. So, in that context, I was asking that, because now FMCG companies would have seen such a high raw material increase. Going forward, do you see that they will overlook pricing for some time and giving more business to us?

Saket Kanoria: I think no one is overlooking pricing at any time. As you said, it's a competitive business. But at the end of the day, you should get the material also on time now. That is the reliability and is very critical.

Dhruv Shah: Right, right. Right, sir. Sir, I have a question on your balance sheet. Have we seen a peak debt because debt right now is around INR 400 crore? Do you see it going up? I know that you have INR 100 crore capex, but our cash profit is INR 125 crore for the current year. So, I'm assuming that this INR 100 crore can be funded through internal accruals. So, can we expect that we have reached the peak debt and from here the debt should come down?

Saket Kanoria: So, the debt will be as a ratio and a percentage, I think that's the way to look at it not in the absolute terms. And if the company grows and debt as a percentage of the growth or percentage of sale, percentage of debt worth, the debt-to-EBITDA, I think these ratios and percentages is what we should strive to improve rather than the total absolute amount.

Dhruv Shah: Okay. Sir, and the last question, so, in our corporate presentation, we had guided that it’s our endeavored to reach 20% ROCE. So, with our capex plans and with Creative now contributing, do we expect to reach that milestone by FY24?

Akshay Kanoria: Yes, so the ROCE is basically when we make an investment, our whole idea and strategy is that we should manage 20 plus percent ROCE. And if you see in the past, that was the case also. And we see that coming back. And certainly, if you go by the last few months, I think we are sort of improving.

Saket Kanoria: The return on capital employed, we have hit 20% plus, about eight years ago, seven years ago, then it dipped to 10%, 12%, 13%. And then over the last two, three years, it is improving. I think, this year, we've got up to almost 15%. So, it is getting better. So, it means better utilization, and more efficiency.

Moderator: The next question is a follow up from the line of Vipul Shah from RW Equities.

Vipul Shah: Sir, I have a follow up. If I heard you correct, sir, Creative basically operated at 40% capacity utilization and contributed close to INR 9 crore in the year gone by. Do you see Creative operating at close to full capacity this year?

Saket Kanoria: So, right now, because of this international situation with China in periods of lockdown and this Russia war, the supply chain of this mobile phone business is a little affected. Means, our customers are not able to get their raw material like chips and microprocessor and small, small parts, with the result that they are not able to ramp up full production. And second thing is that, even Indian smartphone market is a lot dependent on export. And the export is also affected due to the international position. So, if we do expect improvement, but we don't expect at very high level of utilization.

Akshay Kanoria: In the long-term volume shifting to India and the India volume growing that is very much baked in and we expect big improvement, but in the immediate time that is taking time because of all of these disruptions from COVID, China zero COVID and then this war situation and the RM scarcity and all of that. So basically, at the customer end the production is really hit, but once it comes back, we'll be fully ready to take advantage and we can grow this by factors of several multiples.

Saket Kanoria: And also, we will get into other forms of rigid box which in any case, we are trying.

Akshay Kanoria: For all our other customers.

Saket Kanoria: Yes.

Vipul Shah: So, just a follow up to that, I hear you when you say that sir, it is basically a circular shift that the mobile phone manufacturing and export will increase. Obviously, these are not the times when we should expect growth, but the secular shift is here. As a company, are you looking at putting in more resources into Creative and growing capacity to be ready for the growth whenever it comes?

Saket Kanoria: Yes, absolutely. We've already started doing that since we took over. We are expanding the building. We've already added very modern equipment and we will further develop as we go along because it's a small unit, and it has to come to a much bigger scale.

Moderator: The next question is from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: Sir, congratulations for a good set of numbers. My first question is, sir, what was the export proportion as a percentage of revenue this quarter? And what was it in the previous quarter? And which countries do we export? Like major revenue comes from which country? And like, in your term, how are we seeing exports for our company?

Saket Kanoria: So, export, overall export, I can tell you for the year was about 23%. And we are exporting to a lot of countries in Europe, Netherlands, Sweden, UK, Middle East is a big geography in which we export, parts of Africa. So, yes, it's fairly broad based across these three regions. And now, we are looking to expand further to the North America, where we also see a lot of opportunity.

Gunjan Kabra: Sir, is it possible to give quarter-on-quarter?

Saket Kanoria: No, quarter-on-quarter figures are not published.

Gunjan Kabra: Okay. So, also this quarter, we were able to maintain our margins, but from like seeing the high paper prices, are we seeing a pressure on margins going forward or we'll be able to maintain it?

Saket Kanoria: So, paper price in this quarter, we witnessed the highest volatility and very big incremental increase in particularly, recycled paper. And that has been mitigated reasonably well. Now, currently, the recycled is on its way down. We don't know how long that is going to last. But as I mentioned earlier in the call, this pricing has become far more dynamic these days. So, it's being very regularly monitored by customers. So, we hope that we will be able to maintain margins.

Gunjan Kabra: Sir, what is the mix between recycled and virgin paper?

Saket Kanoria: The mix hasn't changed really that much. Right now, both are almost, I would say 45%, 55%. Virgin 55% something like that.

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

Saket Kanoria: Thank you, everyone, for your interest and for your insightful questions. Should you need any further clarifications or if you'd like to know more about us, do feel free to contact our Investor Relations teams or at CDR. We hope to have your valuable support on a continued basis as we move ahead. On behalf of the management, I again, thank you for taking the time to join us on this call. We look forward to our next interaction. Thank you.
