TCPL packaging limited

Empire Mills Complex
414, Senapati Bapat Marg,
Lower Parel
Mumbai 400013, India.
Tel : +91 22 61646000
Fax : +91 22 24935893
Email : tcpl@tcpl.in
Website : www.tcpl.in
CIN: L22210MH1987PLC044505

10.02.2020

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

This is further to our letter dated 05.02.2020 wherein we had given an advance intimation of the upcoming schedule of conference call to be held on Friday, 07.02.2020 at 12:00 noon (IST), in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In the said connection please find attached the transcript of Investors Conference Call. The transcript of the conference call is 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: 2020.02.10 13:54:28 +05'30'

Compliance Officer

Encl. As above

"TCPL Packaging Limited
Q3 FY2020 Earnings Conference Call"

February 07, 2020

ANALYST:	**MR. ANKIT GOR – SYSTEMATIX SHARES & STOCK LIMITED**
MANAGEMENT:	**MR. SAKET KANORIA – MANAGING DIRECTOR- TCPL PACKAGING LIMITED**

Moderator: Ladies and gentlemen, Good day and welcome to TCPL Packaging Limited Q3 FY2020 Earnings Conference Call hosted by Systematix Shares & Stocks Limited. 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. Ankit Gor from Systematix Shares & Stocks. Thank you and over to you Sir!

Ankit Gor: Thank you Aman. I welcome all on behalf of Systematix for joining Q3 FY2020 Earnings call of TCPL Packaging. I thank Mr. Saket Kanoria and the management of TCPL Packaging for giving this opportunity to host this call. I would like to hand over the call to Mr. Saket Kanoria for opening remarks follow which we can have Q&A session. Over to you Mr. Saket. Thank you.

Saket Kanoria: Good afternoon everybody. This is Saket Kanoria here. We are pleased to do our second conference call post our result which were declared a couple of days ago and we are very excited to announce that despite adverse market conditions, we have recorded a growth of 12% this quarter and year to date is 11% when most of you who track FMCG companies will see that the growth of our customers has been in the 5% to 7% range and the volume growth has been even lower and yet, TCPL has recorded a 11% year to date growth and on top of 11% growth even last year and the year before that was 17%. Our performance has been very consistent and stable and what is even more exciting is that the quarter ended December, we have recorded EBITDA margin of 16%, which is the highest margin we have recorded in three years. The last time we went beyond 16 was way back in 2016. So that brings us a lot of confidence with respect to margin and year to date EBITDA margin is 15.07% versus last full year was 13.2%. So there has been a substantial expansion in margin. This is mainly led by a) scale and b) lower raw material cost. However, the profit before tax level is not being shown as much as the increase in the margin primarily because new plants in Goa and expansion in Haridwar have now gone online and as result, the interest in depreciation cost are higher versus previous year, which is eating up a little bit of this EBITDA, but however, end of the day the return on capital employed and the return on network is quite healthy.

Overall, the company has not added any significant amount to its term debt and as a result, debt equity ratio and even the current ratio of the company has improved better liquidity situation and you all may have also seen the press release that we gave after the board meeting about the formation of a subsidiary. Today the biggest theme around the FMCG and packaging world is how do you make packaging, which is sustainable from an environmental point of view and it is all about recycle, reuse and reduce. As you know, we are new player in the flexible packaging industry with a very innovative offering and in order to expand that we have tied up with this German Company where we are importing this new technology. We hope to replace the traditional polyester, poly laminate with the poly, poly laminate with the result that it will be recyclable and also in terms of total weight it can give slight saving. So, overall, we are very excited about this opportunity because we feel it will be a game changer in the days ahead.

In order to claim the benefit of the low corporate tax since it is a new unit, we will make it into a subsidiary and besides that it will be focus by having another company, there will be much more focus in that business and it could also look at export and selling films to others.

Now, I invite questions and I am happy to answer the same. Please go ahead.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Thank you. Couple of questions here. First could you give us a sense of what will be cash flow generation before capex of the company on an ongoing basis and if we would look at that cash flow, how do you see that the utilization has been broken out in terms of further capex for example, the subsidiary you mentioned or potential debt pay down or if you could also give us a sense of what your optimal leverage target that we should be expecting that to come down or not?

Second question is, if we look at this industry on a medium term basis, are we seeing a shift in market share towards some of the larger players, is there some kind of consolidation going on in the industry, and finally as you look at your decision to go into flexible which we took a couple of years ago in hindsight was that the right sort of area to get into or is that an area where given the competition returns and capital etc., that we see in our industry is this is just a place where you want to putting more capital work, it would be helpful to get your thoughts on that?

Saket Kanoria: So, to answer your question in terms of cash flow as I said, we have not added any significant debt this year, we have had an EBITDA of 100 Crores in the first nine months, roughly 100 Crores and out of which we pay interest of 27, so we have free cash flow of 73 Crores and the total capex done or plan to be done in this financial year is lower than 65 Crores. We have repaid 49 Crores of debt in this year and we take on also about 48 Crores of debt. So net there is no debt increasing and going forward also we do not anticipate any increase in term debt of course working capital debt is based on your revenue growth and the working capital cycle, so that may grow proportionately to the growth in revenue, but nothing beyond that and in order to maintain this rate of growth also we believe that without adding anything significant to the debt, we will be able to sustain a double digit annual growth rate.

Coming back to the consolidation, in flexible space the consolidation is greater than it is in carton but there are small players and there are large players. There is no doubt that the larger players are growing faster than the smaller one. So, the gap is widening but we have not seen that many MNA's in the paper boat carton space as such.

As far as the flexible are concerned, we invested in this in November 2016 and it took some time to establish it. I think we have operating losses for a year and a half but since then it has stabilized then done very well and overall, we are very happy with the decision we took and I think it has played out and we offer very innovative products and very high value added. So, we are not so much in the normal competition of the basic laminate and we do not intend to be in that space either. So, the step we have taken now again for recyclable packaging offering is again a step in that direction that we hope to stay once a few legs about the competition not just once step ahead. I hope that answers your questions.

Nagraj Chandrasekar: Yes. Just one clarification. You are saying that over the next say it three years or five years, we should not expect the debt to go up, but it is probably not going to come down and 40 Crores – 50 Crores year of post tax free cash flow will generate, you are probably going to be spending that on capex to grow the top line, right, is that a fair understanding of what you are saying?

Saket Kanoria: Yes. I think in the net debt level we do not see any reason why we should bring it down beyond this because it either percentage to net worth it will keep going down but in absolute amount, it may not go down.

Nagraj Chandrasekar: Where do you see this capex being done?

Saket Kanoria: That will be done on a need to need basis based on regions where we are growing, where we are not and we need to constantly invest to keep up to date in technology and to increase capacity on an incremental basis.

Nagraj Chandrasekar: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Siddharth Agarwal from Prudent Value Partners. Please go ahead.

Siddharth Agarwal: Thank you Saket for giving the opportunity and congratulations for a good set of numbers. Could you just speak a little bit more about what has led to the EBITDA margin expansion that we saw this quarter and do you think that we can stabilize now at the current run rate?

Saket Kanoria: Firstly thank you for your comment and secondly as far as the EBITDA margin is concerned as I mentioned that we have crossed 16% after considerable period of time and the conditions were quite favorable in this quarter in terms of raw material price reduction and also the product mix that we did, so it is very difficult to say whether we can maintain this quarter-on-quarter but certainly the overall trend seems to be that it is better than what it was the last two years, but I would not like to have a guess of whether this is now going to be the new bench mark because raw material prices are quite volatile and there could be some increase in the near future because there is huge uncertainty with respect to China and the coronavirus. What impact that has to the rest of the world is completely unknown at the moment. It is not that we as a company import much from China, but it affects all commodity pricing for which right now we do not have any clarity.

Siddharth Agarwal: Okay. Sir could also speak a little bit of about the sustainable packaging limit which we are now increasing allocating capital to, so, obviously we have as our client some of the top players in the country from your interactions with them, how do you see the demand on their side and willingness to pay up a little bit more to more sustainable packaging and what are our plans to grow in this segment?

Saket Kanoria: So sustainable packaging is today the buzz word and I think it is a corporate mission of most of our customers, particularly the multinational customer to respect and care for the environment in a sensible manner and I think that if any company goes to them with a solution to their problem of waste management that is the top most priority for all customers and obviously currently they have by value engineering lowered the cost of packaging over period of time by reducing the amount of packaging they use and constant permutation combination, so naturally if they go to a alternate structure it could be that there is a small cost increase to start with, which probably in the future will also level out. I think that there is no choice in this matter because at the end of the day you have to pay for the recycling also and you have to pay for the collection and you have to pay for the disposal, so if you take the total cost of ownership then ultimately I do not think what we are planning to offer is going to increase their cost and if it is into their corporate goal which is to respect the environment and to make a sustainable packaging. So, I think we are very excited about this and companies which will adopt such a technology and do well with it because it is not just that you buy a machine, it is also to do with the chemistry and to make the right combination of the film and its property. So, there will be a little bit of learning curve and it is all about how well you manage that.

Siddharth Agarwal: In a flexible packaging that we started in November 2016 now, what level of utilization have we used there, I guess in that unit also we are doing more sustainable packaging rather than the flexible packaging over there?

Saket Kanoria: Yes, we are at quite high level of utilization in the flexible. There is not much headroom now and we are expanding not only in making the film as part of the sustainability thing but we are also increasing print capacity. We are now at high level and after this expansion we will have lot of free capacity, which we hope to utilize fairly quickly because of this offering.

Secondly, we do not do that much sustainable packaging there right now because we do not have the raw material for that. Once we have our own film making then it will be possible to do that.

Siddharth Agarwal: This new 37 Crores proposed capex is for the film part of it?

Saket Kanoria: Yes. It is only for the film part of it. The conversion from film to packaging will be in TCPL and that will be in addition to this amount.

Siddharth Agarwal: Okay Sir. Thank you very much. I will get back into the queue and I will followup.

Moderator: Thank you. The next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.

Rukun Tarachandani: I am sorry Sir missed this but have you mentioned the total capex amount that is planned for the next financial year?

Saket Kanoria: We are still working on it. We have not crystallized the total capex plan next year.

Rukun Tarachandani: Is it possible to give some sort of a ball park, I mean would it be within that 60 odd Crore kind of a range or would it be lower or higher?

Saket Kanoria: I mentioned to you that the overall debt is not going to go up. If it does, it is very marginal, so it will be within the approval range.

Rukun Tarachandani: Right just a follow up on that what we are hearing from more player is mid to lower single digit kind of a volume growth number, demand across sectors things seemed to have soften, because of the capex that you have done over the past two to three years, I am assuming you have a good amount of spare capacity available, so in that context how do you look at further capex over the next one year, would not it be more prudent to wait it out for a year and let the capacity utilization increase before allocation?

Saket Kanoria: We are doing capex in flexible, which has nothing to do with the capex in carton. I agree with you that in carton we have some capacity and headroom, but in flexible we do not have. So, our trust this year is to augment the flexible capacity.

Rukun Tarachandani: Okay. This installation of films line when do you expect this to be operational?

Saket Kanoria: It will take another one year. We hope to operationalize it around this time next year. The effect of it will only be felt in 2021-2022.

Rukun Tarachandani: Okay great. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Sabnis from V.E.C Investments. Please go ahead.

Kunal Sabnis: Thanks for the opportunity. Sir, if you could throw some light on the business growth and the industry demand, how have last two months be December and January have you seen a sequential pickup in growth and as you mentioned at the start that you grew faster than your clients, how are you able to do that?

Saket Kanoria: I mentioned that the business growth in the quarter is 11% overall and we have grown faster than the client principally because we have added more clients, we tried to take some market share within existing clients and January also has gone along expected lines, not much change. We hope that now budget is over and I do not know what impact that will have on anything but going forward, normally May-June onwards the volume starts picking up significantly till then I do not think any major shift is going to happen and if at all it will happen only post that.

Kunal Sabnis: Got it and the expansion in Goa and Haridwar have the incremental line in terms of utilization broken even at that particular unit?

Saket Kanoria: I think Goa has done very well because it was on a very small base and so it has been fairly well utilized. Haridwar is still struggling with the new capacity because it started only in July-August and it was towards the fag end of the peak season and last year Diwali season was very subdued quarter so we have a lot of headroom in Haridwar and we are trying to expand customer profile there so that we can utilize the capacity we have.

Kunal Sabnis: Right if I can squeeze a final one the sequential increase in depreciation and interest has been quite a bit especially on the interest front. Now if you have not added term debt...

Saket Kanoria: Yes, I answered this question in interest this quarter there has been impact on Forex laws because we have some export and also Forex liability and versus previous quarter there is significant change. Last quarter we had a small earning this quarter we have had a loss. So that has queued the interest cost overall.

Kunal Sabnis: What would be the impact of that if you can share of the 10 Crores?

Saket Kanoria: It is part of the total cost we do not really declare the Forex break up as such.

Kunal Sabnis: Alright that is helpful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity. Sir one small request if you could post the transcript either the website or send it to the stock exchange, it be very helpful?

Saket Kanoria: It will come anyway, it is a mandatory rule so it will be posted.

Agastya Dave: Thank you. I got dropped twice, so I have missed certain things in case you have answered please Sir I am sorry to repeat the questions. Sir first the new facilities which have come online now the expansion and the new facility, what is the asset turnover ratio you can expect at peak utilizations here?

Saket Kanoria: We can utilize 1.5 normally we can go up to 2 also for the slightly older plant.

Agastya Dave: So, in the newer plant can we do 2?

Saket Kanoria: Sorry.

Agastya Dave: Okay one point. In the newer plant can we do 2X or 1.5 is the better result?

Saket Kanoria: No 1.5

Agastya Sabnis: 1.5 and Sir by when do you expect to reach full capacity how easy or difficult is it to ramp up?

Saket Kanoria: We reached full capacity in certain months of the year when the demand is higher but we have to have some lag always because otherwise in peak season we get messed up. So, you can never run at full capacity throughout the year.

Agastya Sabnis: Right and Sir one last question, the flexible business that you are now building. What is the profile of customers and the products that you have today and how will that evolve over a period of time. How do you see that business actually panning out, a little bit more qualitatively?

Saket Kanoria: So today we are doing more customers who are related to us in the carton business we do provide gamete of customers in a FMCG, Food and Beverage and Tobacco. Tobacco is the significant percentage of the flexible business, but going forward and with the technology that we are now installing we will be focussing more on the generic FMCG and Food customers and not at all on tobacco because that technology is not meant for tobacco, so it will become a more diversified set of accounts and also again the carton business relationships will help because anyways with all the potential customers in the carton. So, it is quite natural that we will be able to offer them now sustainable solution in flexible business.

Agastya Sabnis: Sir what thickness can you address in flexible?

Saket Kanoria: Thickness of you mean?

Agastya Sabnis: Yes, the range or the thickness of the film?

Saket Kanoria: We can address I mean there is no limitation really.

Agastya Sabnis: Okay perfect. Thank you, very much good luck, for the next quarter.

Moderator: Thank you. The next question is from the line of Nitin Jain from Birla Mutual Funds. Please go ahead.

Nitin Jain: Sir couple of questions, number one is, I mean on this strategy side we have been in the carton for a long time and now you are moving towards the flexible. So, I just wanted to know your thinking I mean the margin and the profile in carton business say EBITDA margins like 15%-16% whereas it is much lower in flexible around 11%-12% so why do want to expand in that business instead of keep doing the same thing in carton, any particular thought?

Saket Kanoria: Firstly, the turnover in flexible is higher than it is in carton, so typically there we can do 2X whether it is carton 1.5 even if they are 15% in carton it is 22.5% on capital employed and if we do 12% in flexible it is 24 so really speaking there is no difference on capital employed basis. But apart from that with the more innovative business we hope to get a higher margin in flexible also but that time will tell. But we expect that we should be able to do it.

Nitin Jain: Okay and secondly, I am not sure whether this was being answered earlier but pardon me, for last couple of quarters our EBITDA margin has improved I mean on sequential basis whereas most of the FY2019 was quite subdued. So, what is the reason for this and secondly do you think that this is sustainable keeping in view the same product profile say carton only?

Saket Kanoria: Yes, that was on my opening remark the EBITDA margin has improved primarily on account of favorable product mix and lower raw material cost. Now whether it is sustainable at this level is very difficult to say but I think certainly it is better than what it used to be in the last couple years and we hope to maintain that.

Nitin Jain: Okay great Sir. Just last one thing if you can share the current capacity utilization of our larger plant, which you say Haridwar and Goa. Approximate not specific number is it 70%, is it 90%, 80%?

Saket Kanoria: No, it is not 90% right now but it is in the 80% range as a whole.

Nitin Jain: For most of the plats?

Saket Kanoria: Yes, most of the plants.

Nitin Jain: Haridwar, Guwahati, Silvassa and Goa?

Saket Kanoria: Yes.

Nitin Jain: Okay alright. Thank you very much.

Moderator: Thank you. The next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.

RukunTarachandani: You mentioned that the new investment would be done in a substitute to take advantage of the tax reduction, for the parent entity would you move towards 25% tax rate, or would you take some time to move there?

Saket Kanoria: No, we have some MAT credit 50% of which we are utilizing in the current year and the balance we hope to utilize in the next year and our current tax outflow is currently lower than 25% even though we are not in the 25% bracket. So, we hope to move to the 25% bracket in 2021-2022 when the MAT credit gets fully utilized. So, we will obviously not pay at more than 25% at any given time.

Rukun Tarachandani: Understood thank you.

Moderator: Thank you. We have the next question from the line of Gaurav Sood from Prudent Value Partner. Please go ahead.

Gaurav Sood: One I wanted to understand is that you referred to flexible packaging that you are already doing in your existing plant so, what really differentiates that product is it the input material that go into it or is it the manufacturing process that makes you different from the other players out there?

Saket Kanoria: It is of both actually. It is a process also and the input material as well.

Gaurav Sood: Are there barriers to entry, is it patented or does it require high domain knowledge in this thing?

Saket Kanoria: It is high capex number one and it requires high domain knowledge. We have tied up on an exclusive basis with the technology partner, which we will disclose in coming month and they have considerable experience in utilizing such a technology. So that helps us in establishing it.

Gaurav Sood: So, you used the term recyclable flexible packaging, the packaging that you are producing how that recycles in the sense that even if it dumped it will degrade over a period of time?

Saket Kanoria: No, it is not bio-degradable it is re-cyclable which means that you can convert it into chips and then you can feed it back into the stream to make film out of it. It is kind of circular economy.

Gaurav Sood: Okay in that sense it is re-cyclable and what is the raw material we use out here?

Saket Kanoria: It is essentially the polyethylene family.

Gaurav Sood: Polyethylene. So, the difference is that unlike other flexible packaging you are not using multi-layers or adding aluminium to the entire?

Saket Kanoria: No, we will use multi-layer of the same monomer means when we talk of re-cycling if there are different components for example polyester and PE, or BOPP and PE are polyester and BOPP then these are different polymers and then to re-cycle that is very challenging. What we are suggesting is that it will be common polymer and then once you have a common polymer it becomes much easier to stream it back and to re-cycle it.

Gaurav Sood: Any plans to get into the bio-degradable packaging stuff so anything out there?

Saket Kanoria: I do not think there is enough research and enough commercialization availability of that yet which will give the barrier and yet biodegrade and yet be commercially feasible.

Gaurav Sood: Okay there is nothing out there in the market guide now?

Saket Kanoria: Yes, it does not seem to be.

Gaurav Sood: Sir any impact from the coronavirus outbreak in terms of either in your supply chain or in terms of the demand that we are facing?

Saket Kanoria: No demand in India I do not think there is any impact whatsoever. But supply chain to us directly not yet, but we have to wait because we do import little bit from China and most of our suppliers have said that there is no any delay or anything yet but obviously if this virus spreads to various cities in China then it could a problem, right now it is only restricted to one region.

Gaurav Sood: Sir final question is that given that you highlighted that you are growing more in the flexible packaging side and that is where the capex is. Going forward flexible packaging would grow as a percentage of your total revenues in the coming years?

Saket Kanoria: No I do not think that is the case, the point is only this year we are expanding flexible in a big way, but otherwise carton is we are very focussed on that and that is our bread and butter and I think the growth in carton versus the growth in flexible there is not going to any major difference as such, but flexible is not a smaller base so obviously percentage growth will be higher there.

Gaurav Sood: Okay because in this budget there was taxation on cigarette so the general consensus is that will impact the volume growth in these coming years?

Saket Kanoria: Yes, that is right. After 2.5 years they increased the tax on cigarettes.

Gaurav Sood: Okay, but you do not see any major impact on volumes because that?

Saket Kanoria: No, I do not think it is very, I mean it is not a very, very big impact, I sure there will be some impact on volume but we do not know yet what kind of pricing strategy these cigarette companies are going to adopt.

Gaurav Sood: Okay that is it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Vipul Shah from RW Equity. Please go ahead.

Vipul Shah: Just wanted to understand about the raw material, which we use for our traditional business with the reduction in customs duty on some papers and generally what is your sense globally on the price trend for our raw material for cartons?

Saket Kanoria: Paper board pricing reduction in duty is not on account of paper board, it is changing some duty structure for new print which has no impact and as far as global trend is concerned overall it seems that the global economy is slowing down so the raw material pricing is not increasing at all globally but in India the government has imposed some restriction on waste paper import in the end of December. So since then there has been a slight disruption in import of waste which is causing re-cycle board prices to increase a little bit. Now whether this will be temporary till the mills get their supply chains sorted out or it will be a trend it is difficult to say, but overall since the demand is soft there is no big change in raw material yet.

Vipul Shah: Globally prices probably from what I gather are expected to be benign, but the availability in India could be an issue because of these restrictions, which the government has put up?

Saket Kanoria: Yes.

Vipul Shah: So, in that scenario is there enough raw materials available locally for us in the quality which we would like to be?

Saket Kanoria: Yes, there is enough, then it becomes only a matter of pricing I do not think availability is the concern because they have to move to slightly more expensive waste re-cycle and that pushes the cost. So, there is no shortage or anything I do not think there is any reduction in production yet.

Vipul Shah: Fair enough. Thank you.

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

Saket Kanoria: Thank you everybody.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Systematix Shares and Stocks Limited that concludes this call. Thank you all for joining us and you may now disconnect your lines.