



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

11th November 2021

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 1st November, 2021 intimating schedule of conference call to be held on Monday, 8th November.2021 at 2.30 p.m. (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**

Compliance Officer

Encl. As above



TCPL Packaging Limited

Q2 & H1 FY22 Earnings Conference Call Transcript

November 8, 2021

Moderator: Ladies and gentlemen, good day and welcome to TCPL Packaging Limited's Earnings Conference Call. As a reminder, all participants' 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 now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, Mr. Poojari.

Anoop Poojari: Good afternoon everyone and thank you for joining us today on TCPL Packaging's Q2 & H1 FY22 Earnings Conference Call. We have with us Mr. Saket Kanoria – Managing Director, Mr. Akshay Kanoria – Executive 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 & 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 results presentation 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 our earnings conference call for the period ended September 30th, 2021. I trust all of you and your families are keeping safe and are in good health. I also would like to wish you a very Happy Diwali and a very Happy New Year.

I will initiate the call by taking you through the operational and financial performance after which we will open the forum to have a question & answer session.

As India has emerged from the effects of the second wave of pandemic, several end-user industries have witnessed a challenging operating environment. In this backdrop, we believe that TCPL has reported a very steady performance. During the quarter, total revenues stood at Rs. 253 crore in Q2 FY22 against Rs. 245 crore in Q2 FY21. EBITDA stood at Rs. 36 crore translating into a margin of 14.6%. However, during the half year ended September, our total revenues stood at Rs. 479 crore in H1 FY22 as against Rs. 415 crore in H1 FY21. EBITDA stood at Rs. 67 crore translating into a margin of 14.1%. While gross margins have been impacted owing to rising raw material prices, we have been able to minimize the impact on EBITDA

margins by managing our operating costs. We continue to see raw material inflation in the ongoing quarter. However, we are working with our customers to undertake adequate price hikes to normalize our margins. Profit Before Tax and Cash Profits stood at Rs. 15 crore and Rs. 29 crore respectively, during the quarter and the same for the half year has been Rs. 24 crore and Rs. 51 crore.

In a key development, we are also excited to announce that we have entered into a definitive share purchase agreement to acquire a 60% stake in a small Company called Creative Offset Printers Private Limited. The completion of the transaction is subject to satisfactory accomplishment of certain conditions precedent. This acquisition is a strategic decision aimed at broadening the Company's product portfolio and strengthening its long-term growth prospects. With this acquisition, TCPL enters the high-potential rigid box category that is focused on one of the world's fastest growing smartphone markets. COPPL's manufacturing facility is strategically located at Noida, outside Delhi, to target one of the largest mobile manufacturing hubs in India. As both companies, i.e., TCPL and COPPL, have production facilities in close proximity, TCPL expects to benefit from significant synergies such as cost reduction and optimization. This segment is also largely unorganized, so it is our strategic intent to grow by leveraging our scale and institutional capabilities. Further, the promoter of COPPL, Mr. Rohit Khanna will continue to remain in the leadership position under the guidance of the Board of Directors. I would like to take this opportunity to welcome the existing promoters Mr. Khanna & Ms. Dhillon along with the senior management and look forward to working together to achieve a larger scale in the future.

To conclude, our expansion plans in the flexible segment are progressing well and will be established by the end of the fiscal. As we look ahead, we believe the momentum in demand is improving and will further strengthen with rising vaccination coverage, better economic indicators, and supportive macros such as good monsoon. So, additional capacities along with pickup in demand momentum should enable us to deliver strong growth rates in the coming years. Overall, we believe TCPL is well poised to capitalize on the rising demand for sustainable packaging solutions from leading brands and would support our endeavour to create value for all stakeholders.

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

Moderator: Ladies and gentlemen, we will now begin the question & answer session.

The first question is from the line of Faisal Hawa from H. G. Hawa & Company.

Faisal Hawa: There is a LinkedIn post of a promoter who says that we have entered into a cup stock manufacturing facility at Goa with the Director. How will the revenue of this be adjusted and is there any conflict of interest in this? That is the first question.

Secondly, how do you see the entire sustainable packaging playing out? Will it go to new disruptive players who change designs who really adapt faster to the existing business of most of the corporates or will we be also able to be agile to get that business?

Saket Kanoria: First thing is that you are right, there is a LinkedIn post on the new joint venture that the family is entering into with a foreign Company who are a manufacturer of printed paper cups. There is absolutely no conflict of interest with TCPL. In fact, TCPL will get an additional opportunity as a result of this venture because the printing will be done within TCPL itself and it will also create opportunities for other carton volumes

which the customers might have. The pricing of job works, or anything will be all at arm's length relationship. And the reason for entering into a private Company as opposed to as a subsidiary of TCPL is that it is a very small joint venture, and given the size and scale of this, it felt as we are part of a listed entity, then it would create more issues and hence it has been kept separate. And also, the partner is running a private Company and was not really comfortable in aligning with a public limited Company rather than a private Company. That was the main thing, but essentially it is a very small investment and hence it has been kept separate. And we will be very clear about the fact that the pricing and any other commercial considerations will be done in a manner that is beneficial only to TCPL.

As far as sustainable packaging is concerned, you may know we are setting up this new plant as a subsidiary TCPL Innofilms which is going to make the recyclable films which will go into making laminates which we supply to the customers. There is obviously a very strong focus to move to single polymer packaging as opposed to the multiple polymers currently being used because then it can be recycled. I think we are on track. We have done various trials with the end-use segment and the results are encouraging. We feel quite confident that this can create a lot of value going forward. This is totally a disruptive technology because until now nobody has been able to successfully produce single polymer packaging across the board of various end-user categories. For example, shampoo sachet, which is currently produced with polyester and polyethylene, our disruption will be to convert it to purely polyethylene without sacrificing on barrier or aroma or aesthetic properties which until now has not been done. In any disruption, it takes some time and there is some unknown, but we are quite confident that we will be successful.

Faisal Hawa: Sir, if I may ask one more question, what is the peak revenue once we achieve close to 85% to 90% capacity utilization in the sustainable packaging line? How soon can we expect that to happen?

Saket Kanoria: There are 2 aspects. One is that we are going to make a film and the film at 85% to 90% would be about Rs. 70 to Rs. 80 crore, and we expect that to ramp up within 6 to 8 months. But then from that Rs. 70 to Rs. 80 crore, we will make laminate which we will convert – we make printed material. There, we can expect a further 50-60% value add. So, it could cross over Rs. 100 crore.

Faisal Hawa: In 1 financial year?

Saket Kanoria: Yes.

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

Pavan Kumar: On the 60% stake acquisition of the Company that we have acquired, how much debt is there on their balance sheet? What is the kind of profitability or margins on that particular balance sheet?

Saket Kanoria: The Company has about Rs. 12 crore bank debt and some private borrowings which we will repay because we are going to freshly infuse further equity. It is a reasonably decent margin business. We expect to achieve a high double digit.

Pavan Kumar: What do you think is the revenue potential of that particular acquisition in terms of whatever capacity is already there without us infusing any capital?

Saket Kanoria: Right now, they are running at a rate of about Rs. 35 crore a year. In the past also, they have achieved in the same range, and we believe that we can increase that by at least 50% and with very small CAPEX, we can more than double or even triple the

revenue. Basic infrastructure of the Company is very nice. They have adequate space and a solid infrastructure, and the proximity to the customers is a very big benefit that they have because they are located in Noida which is a big hub for mobile phone manufacturing. Not only is there Samsung, but there are other Chinese companies like Vivo, Oppo, Xiaomi, and more companies coming. So, the main thrust of our strategy was to have a facility in Noida which is close by to these customers and do just-in-time delivery and also inventory system. These are high value add boxes because they are rigid boxes. If you buy a smartphone, it comes in a rigid box where there is a bottom and a top; you open the box, and it has a high-quality print finish. There is a huge potential because India has done this production linked incentive scheme where the mobile phone manufacturers get a lot of benefit by manufacturing in India and exporting to the world. And with the uncertainties around China today, a lot of markets are now opening up for Indian companies. So, there is a big growth in this segment, and we felt that it would be very synergistic to our operations because at the end of the day, bulk of the processes are common. So, we can leverage that. We have a Haridwar factory of ours which is quite close by which has a lot of capacity. We can do some back-end work there because when you supply the mobile phone boxes to a customer, you have to supply it in a fully formed state. So, you are actually transporting air and hence it needs proximity, but the back end work you can do part of it anywhere and it can complement the front end nearby. So, in a way, it is a very win-win situation, both for COPPL as well as for TCPL.

Pavan Kumar: What do you think would be the timeline for this particular entity to contribute meaningfully to say 10% of the revenues?

Saket Kanoria: Right now, some conditions precedent has to be satisfied which is I do not think a very onerous thing. In the next 10 to 15 days, we will actually invest the money and acquire the Company, and after that, obviously we start managing the operations, etc. So, I would say that in the next few months, we look forward to bringing it to its full potential. They are already doing reasonably well having a turnover of Rs. 3 crore and we only expect that to grow from here. A very big plus factor is that they are an old and established supplier to Samsung which is of course the most reputed mobile phone manufacturer, and they have a very good equity in Samsung. So, we hope to leverage this and go forward.

Pavan Kumar: Can you disclose how much might be the capital infusion that might be required to get this entity again up?

Saket Kanoria: Capital infusion is not very much. The CAPEX required to bring it up to a slightly bigger scale is in the range of Rs. 5 to Rs. 10 crore.

Pavan Kumar: Sir, one last question of mine. In our existing lines of business, of the capacity that we already have in terms of flexible and in terms of the paper packaging capacity, what do you think is the steady state-run rate of growth going forward? What do you think is the potential of the industry? Maybe if you can just give us an idea about that.

Saket Kanoria: These last 2 years have been very volatile due to Covid, and the market is going up and down quite significantly. We had 2 very big waves and hence I would say that volume growth of the customer is high single digit, 7%, 5%, it could be anywhere between 5% and 10%. So, we would expect to grow in volume a little better than that, and in value, much better than that because it is very inflationary at the moment. I would say that we would expect to grow in double digit for sure.

Pavan Kumar: This year we are not expecting much growth, I am guessing.

Saket Kanoria: No, now I hope the worst is over, and if you see the performance so far, we have grown 15% half year, and I think going forward also, we will hope to achieve a decent growth.

Moderator: The next question is from the line of Pulkit Singhal from Dalmus Capital Management.

Pulkit Singhal: First question is on the flexible line. If you could provide the contribution in the Rs. 250 crore turnover and how much would that have grown on a Y-o-Y basis?

Saket Kanoria: The flexible line out of this Rs. 250 crore is about only Rs. 29 crore.

Pulkit Singhal: And the growth on a Y-o-Y basis in flexible, would have been?

Saket Kanoria: Growth on a Y-o-Y basis is not significant. In this quarter, it is pretty much flat because if you remember, last year the 1st quarter was very poor, but the flexible business really came back very strongly when there was restocking in the 2nd quarter, whereas in this year, it has been more stable. That is why, compared to this year 2nd quarter over the last year's 2nd quarter, there has been a very marginal increase in revenue.

Pulkit Singhal: And how do you expect this.... I know you are doubling the capacity here. So, this Rs. 29-crore quarterly run rate which is almost 140, is this expected to double in the next 1 or 2 years?

Saket Kanoria: Much more than double in 1 or 2 years because we are adding a lot of new capacity. But as I mentioned earlier in the call, it is partly additional capacity and partly disruptive technology. So, it will open up opportunities for us in the segments which we are not there today, and we obviously hope to add a lot more customers because of better capability. Also, we have our own blown film in-house which many customers need for qualifying you. In that sense, there is a very big opportunity ahead of us.

Pulkit Singhal: Sir, if I look at the core business, it has only grown 3% Y-o-Y this quarter even I were to exclude the flexible. I think most FMCG companies have reported a double-digit growth in terms of at least the top line and high single digit growths in terms of volume. What explains this low single digit growth which I think also includes inflation in your RM prices. On the volume basis, my sense is we have de-grown in the core business. Is my understanding correct?

Saket Kanoria: You are right. In volume also, we have not de-grown as such but there has been very small growth, and looking at our customers also, the growth has only been 5% to 7% I would say on an average, but a lot of this is also inventory sales. Basic point is that this year after the second wave, consumption has taken a hit and production has also taken a hit at our customers' facilities, and as a result of which, the buoyancy what we saw last year after the first wave, that kind of buoyancy we have not seen in this year. And you will notice that there have been price hikes our customers have taken which have depressed their margins also. So, obviously the inflation is definitely playing its part in subduing demand growth overall.

Pulkit Singhal: So, are you saying your growth is a lead indicator in a way for the FMCG growth? Because their growth has been in high single digits to low double digits, but you are suggesting there is a slowdown. I am just wondering why?

Saket Kanoria: Yes, it could be. Certainly, it is an indicator. No doubt about that. Definitely, the buoyancy is not as good as it should have been. And what has happened is that post

the 2nd quarter, the Diwali period has been quite good with all the reports we get. Hopefully, now the demand has again revived, and if this sustains, then it augurs well for the near future.

Pulkit Singhal: But would there be an element that you would have lost market share with some of your customers?

Saket Kanoria: Not really. I would not say we lost any market share.

Pulkit Singhal: In terms of RM price inflation, where are we right now in terms of percentage Y-o-Y and why is it not yet reflecting in the ASP growth? Because if your volume growth is not negative, but your ASP growth is still around 1% to 2% maybe. But my understanding was raw material price inflation is much higher. So, why is there a disturbance still?

Saket Kanoria: RM pricing, as there was an inflation in March-April period, then it was fairly stable. In fact, it went down in July-August. Again, now this October, there is further inflation. So, the whole effect of it has not been fully passed on. If you see our quarterly results, our RM cost as a percentage of sales is almost 4% more than the previous period. We have taken a hit because of the lag effect of passing on. We have not been able to pass on the whole impact yet because they have been a series of increases. So, when we go to a customer with one increase, then another increase comes, then again you rework the pricing. That has caused this kind of a lag.

Pulkit Singhal: So, in this year, given that your first 2 quarters are closer to 40% kind of gross margins, is that how we should look at things going ahead because of the high RM price scenario?

Saket Kanoria: Yes, right now, it appears that way because we have achieved 61%. That means 39% gross. I think in the current scenario where the RM is going on an upward trajectory, this seems to be a fair margin to play with.

Moderator: The next question is from the line of Vipul Shah from RippleWave Equity Advisors.

Vipul Shah: Congratulations on a good set of numbers in a very challenging environment. Sir, part of my question was actually asked by the previous participant. Nevertheless, I will take this opportunity to just make an observation that in calendar year 2019, our gross margins have been actually trending higher, above 43%, 42%, 44% sometimes on a rolling 12-month basis. Whereas in calendar year 2021, we have actually struggled to come up with at least the 40% gross margin number as well. This quarter has shown some signs that we are actually trending back, but is it fair to assume that this new trajectory is now that we will be sort of looking at a 40% gross margin on a sustainable basis?

Saket Kanoria: That is exactly what I just said. Because right now, raw material has not stabilized. The market is very volatile. As a result of which, there is a lag effective and hence the margin has impacted to a certain extent.

Vipul Shah: But the point I am just trying to understand is that with the lag effect, pricing which we implement, and which over the years, we have seen that on a sustainable basis, we have been able to maintain our gross margins. Is it sort of fair to assume as we look ahead, I understand that the pricing environment of our RM is quite dynamic as I would say. But should we say 2 quarters down the line we can look at and say that we should be back to a 43-44% sort of gross margin which we actually have done quite sustainably in calendar year 2020?

- Saket Kanoria:** We cannot give you such an assurance at this stage when the market is so uncertain. It is not easy to give this kind of assurance.
- Akshay Kanoria:** In the past, we have never seen this kind of raw material inflation. Paperboard especially is a very stable commodity. The maximum kind of swing one sees in a year is Rs. 3-4, maybe maximum 5-7% at the most and that also a big event. Whereas in this last 1 year, the price of recycled paperboard has gone up in very high double digits. Pretty much every component of our cost is up in very high double digits. In such a scenario, it is very difficult to say what will happen next. I would have said if you had asked me 3 months ago that where is the raw material price going, I would have said that it is certainly coming down from here and it cannot go up further, but in fact, the reality was the exact opposite. It is very challenging to say because there are so many new factors like China and this global container shortage; people do not know where it is going to go next.
- Moderator:** The next question is a follow-up from the line of Pavan Kumar from RatnaTraya Capital Partners.
- Pavan Kumar:** Sir, what is our current utilization in our paperboard capacity and flexible line capacity? And when is the new capacity expected to commercialize on the flexible side?
- Saket Kanoria:** Flexible side new capacity will start by the end of the fiscal year which is February-March. On the current paperboard, we are in the range of between 70% and 75% utilization.
- Pavan Kumar:** And the flexible line?
- Saket Kanoria:** Flexible line up to the September quarter was also 65% to 70%, but now it is moving up.
- Pavan Kumar:** So, Q2 was relatively very weak from what you are saying?
- Saket Kanoria:** Yes, Q2 was weak.
- Pavan Kumar:** Sir, let us say for clocking additional volume growth, what are we currently envisaging? In the sense, we have to pull in more of new customers who can bring us volumes, or do you think the current volumes from the customers are good enough to take care of say a double-digit 10-11% growth on our current portfolio?
- Saket Kanoria:** New customer acquisition is a constant factor and all the time there is an attempt to add customers in all sorts of categories. There are a lot of new startups which keep coming – food and other things. So, we have to keep attempting new customers. Existing customer volume growth obviously is always the bread and butter. So, we need both. We cannot just sit on 1 set of customers because you might lose a certain SKU because it is not doing well, or they may discontinue it. You can never say which brand is going to succeed or which one is not.
- Pavan Kumar:** Say, 1 to 1-1/2 year by the time our volumes settle down in our new facility also, can we look at margins somewhere around the range of maybe 15% to 17%? Is it a possible scenario?
- Saket Kanoria:** If you see our historic margins, they have been fairly stable. So, I think on one hand, we will be looking at growth and on the other hand, protecting of margin. So, it will be in the similar range I think going forward also. We hope that we have seen the

worst of this raw material inflation which has been a very big disruptor across the industry.

Pavan Kumar: Sir, since we are saying we might not see much of a traction on the EBITDA margins, what can be the growth potential? Can we expect some growth between maybe 20% north of that maybe not from this year but from maybe next year or over the medium term maybe?

Saket Kanoria: You know my friend, historically we have grown 18% to 20% over 20 years. So, our basic instinct is to try and grow at that number, but the economy has to support us as well. Many of our competitors make these grand plans that we will be so many thousand crore by this year and this much by that year. You do not even know what is going to happen tomorrow. We will keep trying our best and we will come up with a comprehensive performance. That is all we can promise you. We do not intend to lose any share of business or market share and we intend to gain. After that what happens is very difficult to predict, but 20% is a fabulous number if any Company can achieve that over a long period of time. One year anyone can do it, but it has to be sustained.

Pavan Kumar: Related to that question, do you think our base has come to a level that maybe now 18% to 20% will be very challenging or do you think it might still be doable?

Saket Kanoria: I do not know how many companies are doing that kind of growth year-on-year on an average basis. And those days of 20% growth, the economy was growing. Right now, Indian economy is not growing. It is a very marginal growth. Stock market growth is much higher than economic growth. We need economic growth to take place as well. Now, basic ingredients are in place except for the inflationary situation which the country is witnessing. If things come under control, then yes, why not.

Moderator: Thank you. That was the last question for today. I will now hand the conference over to the management for closing comments.

Saket Kanoria: Thank you everyone for being with us today. I know it is the first day after a long holiday for Diwali, so I really appreciate your time. I also hope I have been able to answer all your questions to your satisfaction. And of course, if you need any further clarifications or you would like to know more about us, please feel free to contact our investor relations team or CDR India. We hope to have your valuable support on a continuous basis as we move ahead. On behalf of all of us at TCPL, I once again thank you for taking out your time to join us on this call. We look forward to interacting again with you all soon.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.