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15.02.2022

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**

This is further to our letter dated 07.02.2022 intimating schedule of conference call to be held on Thursday, 10.02.2022 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**

NANAVATI SOHAN GAMANLAL
Digitally signed by NANAVATI SOHAN GAMANLAL
Date: 2022.02.15 11:24:08 +05'30'

Compliance Officer

Encl. As above

# TCPL Packaging Limited

## Q3 & 9M FY22 Earnings Conference Call Transcript
## February 10, 2022

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**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 now hand the conference over to 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 Q3 and 9M FY22 Earnings Conference Call. We have with us today Mr. Saket Kanoria, Managing Director, Mr. Akshay Kanoria, Executive Director 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 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 TCPL's Q3 & 9M FY22 earnings conference call. I hope all of you and your families are doing well and are in good health.

I will begin the call by taking you through the key financial highlights for the period ended December 31, 2021, after which we can open the floor for question-and-answer session.

We have delivered a healthy performance during the period under review despite the ongoing macroeconomic and operating challenges. In 9M FY22, our total revenues have expanded by 14.6% to INR 753.2 crore demonstrating the strength of our resilient business model. We continue to witness rise in input prices that has impacted our gross margin during the quarter. However, we have been able to limit the effect on the overall profitability by taking appropriate measures, particularly to curb our expenses and implement price hikes. On the profitability front, EBITDA came in at INR 108.1 crore in 9M FY22, translating into a margin of 14.3%. In this period, the PBT has significantly improved by 37.3% as you all may have noticed. PAT has also increased by 45.2% and cash profit is up 20.7% on a year-on-year basis.

Post the acquisition of Creative Offset Printers, we have further invested in the Company's rights issue to increase our stake to 80% post allotment of share. Looking ahead, we are very excited about entry into this high potential rigid box space, which is centered on one of the world's fastest growing smartphone and electronic market. We believe we can grow the Company to a substantial scale over the next couple of years. Furthermore, we are looking at various other cost rationalization opportunities at our plants nearby. Over the past two decades we have consistently outperformed our underlying industries owing to our focused approach towards growth through diversification. So, even as some of our key sectors like FMCG are currently witnessing low single-digit volume growth, we are confident of growing at a faster pace as we have demonstrated and will continue to do so in the future.

Moving on to an update on our capacity expansion, I know that there would be a lot of questions in this area. We have made healthy progress at our big expansion, which is currently undergoing in the flexible packaging unit, and we hope that by the end of March it will become operational. This line will more than double our capacity. In addition, we are also on course to establish the world's first state of the art, innovative PE blown film lines at our facility, which is being executed through our subsidiary Company TCPL Innofilms. We anticipate this unit to drive demand for our flexible packaging segment as it is based on the ecofriendly recyclable technology. Both facilities are expected to be operational by end March early April. While our film line should be operating at a high level of utilization within the next few months, we expect the flexible line to be optimally utilized over the next one year.

To conclude, on the back of various Government policy initiatives taken over the past few years and focus on 'Made in India,' India is clearly emerging as a major global manufacturing hub. This structural theme will provide a huge impetus to the organized packaging industry, including the sustainable paperboard-based carton and flexible segments. Giving TCPL's leadership position in the industry, we believe we are well position to tap this opportunity.

On that note, I have come to the end of my opening remark and would now like to ask the moderator to open the forum for any questions or suggestions that you all may have. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Vipul Shah from RippleWave Equity. Please go ahead.

**Vipul Shah:** First of all, congratulations sir on an excellent set of numbers. To say that the Company could deliver these numbers in these exceptionally challenging times is actually a great commendation sir to you and your team for brilliant execution. So, many congratulations on that. Sir, just one question which I had is that these gross margins of the Company have now stabilized at around 40%, more or less 40%, if we look at the rolling 12-month basis, obviously which is a couple of points lower than earlier, but given the whole inflationary environment around, we perfectly understand the same. So, just one question, as you look ahead, sir, in the future, do you think these 40% gross margins is what the Company can sustain going ahead?

**Saket Kanoria:** Thank you so much. Yes, the gross margin has been at this level in the last quite some quarters I think what we have reported. And we have witnessed a lot of volatility in raw material over the past, in fact, since COVID, I would say. So, it is still continuing though, and so, what I would say is that it could get impacted in a quarter or two, and then, again get corrected because of price lags. So, overall, We are not overtly concerned about it right now. I hope that answers your question.

**Moderator:** The next question is from the line of Faisal Hawa from H.G Hawa & Co.

**Faisal Hawa:** My question is, on a strategy level, just like we acquired this mobile phone boxes manufacturing Company in Noida, and we now have almost 80%, so what would be the revenue that we are expecting from this unit in say, two or three years from today? That is one. And second, since packaging is a very, very fragmented business, and we have a private equity player now actually acquiring several valuable niche players and trying to make up a packaging major on its own, would we be open to making such acquisitions at 0.3 times sales or 0.5 times sales, and trying to make up packaging major also on our own all over India? Because this is -- packaging is a very, very freight intensive business and so, there are several is now in the domain even in the packaging domain, which are available at sub 1-time sales, and this could itself create a good footprint all over the country. So, are we thinking in those terms?

**Saket Kanoria:** I think the acquisition, we expect this mobile phone business to definitely grow and in a couple of years, we hope to enter three-digit mark. As you know that right now it is in the INR 30 crore range, annual range. So, a long way to go, but we expect good growth and scale up, definitely. As far as acquisition into other packaging companies based on what others are doing, we will do things if it is sustainable from a pricing point of view and also if it is a good strategic fit, but on our own, in any case, we have been growing healthy double-digit. So, our obviously primary focus is there. And if things come along at a sustainable pricing then we are very open to look at it, for sure.

**Moderator:** The next question is from the line of Archit Singhal from Nearc Investments.

**Archit Singhal:** I wanted to understand what is the competitive dynamics here? What is the Company's market share? Who are the key competitors? And how has the market share been, is it growing or declining? If you can comment on that please.

**Saket Kanoria:** I believe we have already shared the investor PPT, and it is very difficult to tell you about our exact number for market share because it is quite fragmented, the business. But obviously, our market share is only improving, because as I mentioned in my opening remarks, our revenue is outstripping the volume growth of our customers. So, there is a bit of value and volume, but overall, we see increase in market share consistently over period of time.

**Archit Singhal:** Okay. And is it possible to mention the sectorial split? So, I did see a number of FMCG and F&B clients in your PPT, but do you mention the sectorial split and how much comes from this sector?

**Saket Kanoria:** No, we do not mention that, sorry. Because that is the data which we have never been giving. And that has not been in public domain.

**Akshay Kanoria:** Basically, the issue is most of the competition is private and they would love to know a lot more about us. I know it is a bit frustrating for you all, but broadly speaking, we operate in the FMCG, food, liquor, tobacco, pharma sectors. And predominantly, we are supplying to the FMCG and food packaging industries. So, that is our biggest segment.

**Archit Singhal:** I mean, Akshay that is helpful. Basically, what I am trying to get at, as you would be seeing FMCG companies are commenting on volume growth being slowing down in the recent few quarters. And the outlook also does not seem too great. TCPL has been delivering double-digit growth and I guess the Company will continue to do so. So, what will drive that higher growth for TCPL when the end industry is not growing that fast? So, that was the question.

**Saket Kanoria:** So, basically, the growth will be delivered by increase in market share by adding new customers. There are lots of new customers which we still have not tapped. And that is one very big key factor in this growth number. And also, all the underlying industry volume growth is similar. It is not that FMCG is 2% and something else is 15%.

**Archit Singhal:** Understood. And sir last one from me, just wanted to understand how are the contracts with these FMCG companies based? I mean, is the raw material completely passed through, or is it like of cost-plus kind of a contract where we get a fixed ROE?

**Saket Kanoria:** No, it is not 100% pass through always. There is a negotiation, and it is based on market forces. But broadly for key accounts, there are certain period of time for which there is a costing methodology. And if there is a raw material increase within that period, then it is passed through.

**Archit Singhal:** What would be the key raw materials for us in the holding carton's business?

**Saket Kanoria:** Clearly paperboard is the main raw material.

**Moderator:** The next question is from the line of Pavan Kumar from Ratnatraya Capital.

**Pavan Kumar:** In terms of raw material, are there any further price hikes due in Q4 and do you think the raw material inflation has been fully absorbed by whatever has happened in Q3?

**Saket Kanoria:** We were very surprised that there is again a raw material price pressure now. I had thought that with already massive increases in paperboard prices last year that we have seen the end of it. But again, the shortage of fiber and shipping and coal and same story. So, again, there is now a new trend of increases. So, this is most difficult again, and we have to start the whole process once more.

**Pavan Kumar:** Okay. So, Are there any contracts for Q4 being negotiated or would it take time for us to gap or slowly absorb it over maybe two or three quarters?

**Saket Kanoria:** Q4 is already passed. The Q4 is already over. And these increases have just been sought by the mill. So, whatever impacts will come in Q1 next year only. And we are now talking to customers based on latest indication.

**Pavan Kumar:** Okay. And on the new flexible line, did you say sir, it will get commercialized in March?

**Saket Kanoria:** Yes, new flexible line, end March, early April.

**Pavan Kumar:** Okay. And how do we expect the utilization of that particular line to go ahead? And also, the recyclable film facility that we are putting in, what time will it take for the whole thing to ramp up?

**Saket Kanoria:** As I mentioned in my opening remark, that we feel that the film line should be ramped up quite soon. And the flexible line also, over the course of the next one year, should be at a very high level of utilization. That is what we expect as on date. Obviously, for the recyclable film, there is lot of trials, test at customers to validate. So, that takes some time. But yes, it would take a couple of quarters at the most.

**Pavan Kumar:** Okay. So, on an overall basis, because of this new capex that is coming online, can we expect any kind of operating leverage, capacity operating leverage playing out maybe in the next year? And thus, see higher margins achieved at an EBITDA level, is it possible?

**Saket Kanoria:** I think operating leverage will materialize because at the end of the end, the expenses are over a wider sales footprint. But margins, I cannot comment right now that it will increase further. I do not think it will increase further on this account in the very first year of operation.

**Pavan Kumar:** Okay. But next year, are we seeing again our guidance will be double-digit, or should I say, revenue growth or would it be higher?

**Saket Kanoria:** Yes, definitely.

**Pavan Kumar:** Can it be higher, sir? 20%.

**Saket Kanoria:** Well, India also has to grow a little faster, right now the Indian economic growth is very poor.

**Akshay Kanoria:** See, we will keep growing at the multiple of the customer's volume. But if the customer volume growth is 1% or something, then obviously the multiple will also look fiddly. But at some point, still, we grow faster than the industry and hopefully.

**Saket Kanoria:** Much faster. No, but now one heartening thing is that COVID seems to be getting over in all over the world. I mean, there is a definite drop in cases, people are now overcome this third wave. So, with COVID going next year, I think that is a very positive sign for everybody.

**Pavan Kumar:** Okay. Lastly, can you give us an idea of what your customer base was last year in terms of number of customers versus what is it now?

**Saket Kanoria:** It is a very difficult question to answer. I cannot give you any very solid data on this. But there are lots of customers, and they keep growing all the time.

And so, there could be small customer, big customer, but yes, I mean, we are in the 100, so to give you a number is really difficult.

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

**Pulkit Singhal:** Congrats on a good set of numbers, during such tiring times. The first question was just on the flexible segment. If you could mention what was the utilization during the last quarter and how much it is now contributing to revenues?

**Saket Kanoria:** So, the flexible segment in the last quarter was quite well utilized, I think, in the high 85% sort of range.

**Akshay Kanoria:** But in general, we do not like to give quarterly split in the share. We can give you on an annual basis, it is about 15% of the overall sales.

**Pulkit Singhal:** Right, because it was 15% last year as well, FY21. So, volumes grow in that line?

**Saket Kanoria:** Yes, but carton has also grown in the current year. So, it is not that the flexible has grown beyond the carton. So, that share of business remains pretty much the same.

**Pulkit Singhal:** Yes, understood. And in terms of the export, if you could talk about how growth is happening this year, on a full year basis and how are you seeing trends for the next two or three years?

**Saket Kanoria:** Export has been one very bright spot in our performance and is growing higher than domestic. And we see that trend to continue going forward. Also, as we mentioned about this 'Make in India' initiative , and also people are wary of China, so, there is markets opening up and opportunities. Obviously, it takes time to establish it, but over the next couple of years, I think we will have many more export opportunities. So, we see a healthy double-digit growth in export already on a pretty high pace.

**Pulkit Singhal:** Right, right. And which areas are you seeing more traction within the exports?

**Saket Kanoria:** A lot on food products, FMCG, tobacco.

**Akshay Kanoria:** Then, on the new sustainable film line, we see a very good scope especially whether it is the film or the converted laminate both, there is a lot of interest that can drive a huge growth. Overall, basically, India is becoming more competitive vis-à-vis the rest of the world, especially China, not only on account of container price difference, but also the raw material and the overall base of the backend industry in India has grown to a certain scale. And people need a diversification out of China.

**Pulkit Singhal:** So, this is quite heartening. I mean, to that extent, it is effectively the current set of products and manufacturing lines that could be utilized, right? In the sense, you do not have to do any particular new investment in technology or some different way of doing things to address this market.

**Saket Kanoria:** Not investment in technology, but you will certainly have investment in capacity.

**Akshay Kanoria:** And also, sometimes there are some small niche machinery or something, but nothing great.

**Saket Kanoria:** Yes, the main thing is that you have to grow your capacity also if we have to tap that, I mean, if we are talking of high single-digit or 20% plus.

**Pulkit Singhal:** Right. And where are we in terms of utilization for the carton business?

**Saket Kanoria:** For the cumulative nine months, the utilization was, I would say, around 70%. But last couple of months it has been higher.

**Pulkit Singhal:** Right, good. And lastly, if you could talk about your capex for this year and next year, FY22 and FY23?

**Saket Kanoria:** So, capex current year has been on the higher side. Including subsidiary, it is about over INR 100 crore. But next year we do not see such a number. It would be lower, but we are still drawing our plans. We do not have any big commitment for FY22 FY23, and then, again in FY23 FY24, it will be bumped up. So, I think it is a fairly moderate amount of capex.

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

**Pavan Kumar:** Sir, over a medium term, what would be our target in terms of return on capital? Because that has been historically pretty low if we look at our overall historical track record in terms of financials.

**Saket Kanoria:** Our target is always 20% plus, and whenever we are setting up any new capex that is our internal benchmark. So, we are always striving towards that number.

**Pavan Kumar:** And that would be pre-tax or post-tax?

**Saket Kanoria:** It is normally pre-tax.

**Pavan Kumar:** Okay. Pre-tax 20%. And what do you think the timeline by which we can get to that target if you have any?

**Saket Kanoria:** No, we do not have any such timeline. This is a continuous effort. So, we keep trying to perform as much best as we can, and the returns will automatically flow. So, this is an ongoing and daily, day to day challenge.

**Pavan Kumar:** And on your paperboard side, what do you think are the steady state growth rate, sir? Because we already have a decent amount of market share. So, what can be the growth rate if we take the flexible packaging as our new product on mobiles of this whole equation?

**Saket Kanoria:** So, growth rate can hit very high double-digit, 18%, 20%, because the paperboard volume growth, underlying volume growth, maybe last quarter was low, but on a normal average, it is about 6%, 7%. So, we can grow double that number probably. And then, in addition to that, the new products or new categories rather, so, that will propel the growth higher.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Saket Kanoria:** Thank you everyone for your questions and for you interest. I hope I have been able to do justice to your queries. Should 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. We hope to have your continuous support as we move ahead. On behalf of all of us here in TCPL, I thank you again for taking your time to join us on this call. We look forward to interacting with you again soon. Thank you.

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*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.*