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5th August 2024

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Dalal Street,	Bandra Kurla Complex,
Mumbai 400 001	Bandra East, Mumbai 400 051
Security Code:-523301	Trading Symbol:- TCPLPACK

Dear Sir(s),

Re:- Transcript of the Q1-FY25 Results Conference Call

With reference to the aforesaid subject, attached is transcripts of the conference call held on 31st July 2024, with the Investors and Analysts.

Kindly take the same on record.

Thanking You

For **TCPL Packaging Limited**

HARISH ANCHAN
Digitally signed by HARISH ANCHAN
Date: 2024.08.05 12:38:01 +05'30'

Compliance Officer

TCPL Packaging Limited

Q1 FY25 Earnings Conference Call Transcript

July 31, 2024

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 Ms. Jenny Rose from CDR India. Thank you, and over to you, ma'am.

Jenny Rose: Good afternoon everyone and thank you for joining us on TCPL Packaging's Q1 FY25 Earnings Conference Call.

We have with us today Mr. Akshay Kanoria and Mr. Vidur Kanoria – Executive Directors; 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 the 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. Akshay Kanoria to make his opening remarks.

Akshay Kanoria: Good afternoon everyone and thank you all for joining us on our earnings call. I will initiate the call by taking you through our business highlights for the period under review, after which we will open the forum to a Q&A session.

We are pleased to report that we have commenced fiscal year 2025 on an encouraging note despite the soft domestic demand environment. In Q1 FY25, we achieved a 9% increase in consolidated revenues, reaching Rs. 406 crore. Furthermore, on a year-on-year basis, EBITDA registered a healthy growth of 16% to Rs. 71 crore with margins improving by 108 basis points to 17.6%. This strong performance was supported by a better product mix, operating leverage, and proactive cost management. PBT and PAT for the quarter grew by 29% and 34%, respectively, reflecting robust profitability.

Moving onto operational updates, we are making significant progress on our planned initiative to establish a greenfield facility in Southern India. We expect to commission this state-of-the-art facility in Q3 FY25. It is strategically located near Chennai, providing excellent access to major industrial hubs, and enhancing our logistical strength and service capabilities. This expansion will improve our ability to serve both new and existing customer efficiently, broaden our pan-India presence and align with our goal of growing geographically alongside our customers, while strengthening our position as a leading player in the industry.

We are also strengthening our board with the appointment of Mr. Sunil Talati as an Independent Director for TCPL Middle East FZE (TME), effective July 18, 2024. His deep industry expertise will bolster strategic oversight at the subsidiary level and enhance compliance frameworks, benefiting TCPL Packaging's international operations. Mr. Talati's role will reinforce governance practices and align TME's operations with TCPL Packaging's global standards.

Moreover, we have received approval from the NCLT, Mumbai for the merger of TCPL Innofilms Private Limited with TCPL Packaging Limited. This move integrates TCPL Innofilms, a fully owned subsidiary, into TCPL Packaging, leading to better cost efficiency and synergy.

Our focus on growth through diversification, along with strategic expansion of our manufacturing presence across India has enabled us to consistently outperform our underlying industries. With the Indian organized packaging industry still in its nascent stage, we believe we are well positioned to capitalize on significant growth opportunities driven by increasing consumer demand and evolving packaging needs. Additionally, our strong performance in export markets has further solidified our position as a key player in the global arena.

In conclusion, we remain committed to sustainably growing the Company in the future, which will help create value for all our stakeholders.

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

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

The first question is from the line of Nitish Rege from ChrysCapital.

Nitish Rege: So, the first question is, our EBITDA margin used to be in the 15% to 16% range in the past, but in the last 2 quarters, we have delivered 17% plus margin. Is it fair to assume that our margin will be in the 17% to 18% range going forward?

Akshay Kanoria: So, yes. I mean, historically, if you look at the long-term average, we have been around 15% plus/minus. And typically, in a slightly better environment, it goes up by a few percent and worse environment by a few percent on the negative side. So, far, we are maintaining these margins last couple of quarters. And we are not in a very volatile RM pricing environment. In the 1 year, there was a big claw-back in terms of prices of our major raw materials because the inflation of the previous year moderated substantially. This year, we are seeing raw material prices increasing again, but nothing like how it was 2 or 3 years ago. So, overall, as long as the environment remains stable or benign, I think we are managing these numbers for now. So, hope to continue it.

Nitish Rege: Great. And what is the growth outlook for FY25 in terms of value and volume growth?

Akshay Kanoria: So, we don't have guidance per se on particular year, but definitely, we have been growing at high double-digit growth rate for the last several years. So, we just hope to continue that long run average. And in the previous years, we had very high value growth and less volume growth 2 years ago. And last year, it was the opposite. So, this year, I think we have a normal year for once. So, we should have a healthy mix of value and volume.

Nitish Rege: And the Chennai facility, could you quantify the capex requirement for that?

Akshay Kanoria: So, we don't give the breakup for each unit. But overall, as a Company, this year, we should be doing more than Rs. 100 crore on capex total. So, there is some amount of new equipment we are putting in our other plants and then there's also the Chennai unit.

Nitish Rege: And the finance cost also has remained flat for the last few quarters. Fair to assume finance costs will also stay in the same range going forward?

Akshay Kanoria: Yes, it should, on an absolute basis, about similar range going forward.

Moderator: The next question is from the line of Nikhil Shetty from Nuvama Wealth.

Nikhil Shetty: Regarding the revenue growth. So, if you assume a 20% increase in the exports, the domestic growth might have been around 5%. So, I believe there is a decent growth in the domestic market, is this a real sign of recovering domestic demand? Or is it due to the new product or a client addition or perhaps an increase in the wallet share from the existing customer?

Akshay Kanoria: So, we don't give the breakup regularly between domestic and export. But basically, yes, I mean, the domestic market is growing. Last year, we had that headwind of the liquor, but this time, it's normalized. So, it's already accounted for in the base this year. So, we had growth last year also, if you discount for the negative impact of the liquor. So, that's continuing this year as well. And where the growth is coming from, there's a bit of a mix of everything. We have new customers; we are adding them all the time. New customers who we added last year, now who are increasing volumes steadily. And of course, we are gaining share in existing customers.

Nikhil Shetty: That's helpful. And for the second consecutive quarter, we have achieved an EBITDA margin of over 17.5%. So, with a positive contribution from the subsidiary. So, given the strong client addition over the past 12 to 15 months, can we expect the quarterly run rate for these subsidiaries to remain anywhere between Rs. 15 crore, Rs. 20 crore in the coming quarter?

Akshay Kanoria: Yes, I mean broadly.

Nikhil Shetty: So, if that is the case, then probably we will be able to maintain this high EBITDA margin trajectory going forward as well, right?

Akshay Kanoria: I mean, obviously, we hope that it will continue, yes. But it really depends on a lot of factors like primarily the raw material pricing environment, the domestic market. Now it seems that the monsoon is decent this year. So, let's see. We hope for the best.

Nikhil Shetty: Sure. And if you can help us with the raw material price movement, as per some channel checks are concerned, the packaging film prices are moving up sharply. So, if you can quantify, at what percent it is growing?

Akshay Kanoria: Yes. So, there has been a big increase in some packaging film prices in the last months, I'd say. Now what leads to all these things, there are a confluence of factors, whether it's global factors on raw material availability, their exports improving, and there's some amount of cartelization. So, all these things play a big role. And there has been a double-digit increase in prices for certain packaging films. But as a percent of our total RM, that's not a very large amount, but it is impacting in certain segments.

Nikhil Shetty: So, just to get a sense, how much of our overall requirement is supported by Innofilms right now?

Akshay Kanoria: Very small percent.

Nikhil Shetty: Less than 5%?

Akshay Kanoria: The flexible packaging business as a whole, as a percent of our overall business is in the low single digit. So, this is one part of that unit's RM. So, it's not a very substantial impact on the Company as a whole. Yes, for that unit, there's an impact. But like I mean, these film prices are very volatile, like 1 minute it's rising, and the market is going gangbusters, then the next quarter, they're all sitting with idle capacity. So, that's just the way this market goes. So, in certain quarters, you get it; in certain quarters you benefit.

Nikhil Shetty: And lastly, if you can help us with the capacity utilization for carton and flexible in Q1?

Akshay Kanoria: Yes. So, exact numbers, again, we don't give the breakup. But broadly speaking, in the paperboard segment, we are at quite a high utilization of 70% plus level. And in the flexible packaging, we had a much lower utilization level of like 50%, 60% because we added a new line just a few months ago. So, that is just still being absorbed. So, we expect that to improve over the coming quarters.

Nikhil Shetty: You also added the additional line in the paperboard as well, right? So, you're including that as well in this utilization?

Akshay Kanoria: Yes, but that's brownfield and over a much larger base. So, that doesn't really count.

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

Pavan Kumar: So, what technically should be the peak utilization for let's say, paperboards? Can we take it up to 90%, 95% if the demand is there? And the same question for flexible packaging as well. Can it go to 100% technically?

Akshay Kanoria: There are 2 points. Number one is we are at multiple locations. So, every location at every time is not going to be fully utilized. Some units will be 100% and some units will be 60%. So, as an average, meaning, yes, okay, 80%, 90% levels are very much achievable, and we hope to get there. But specifically, one unit is better, one unit is worse at any point of time.

The second thing is that the business is also slightly seasonal. Like right now, we are heading into our Diwali season. So, the order book and everything tends to pick up in that quarter for the domestic market. So, obviously, you can't be at 90% the rest of the year because then during the peak season, you will default. So, yes, that's the concern or a constraint, which is the nature of the business. But certainly, we should be able to take this up further, and specially for flexible there's a long way to go.

Pavan Kumar: And flexible at full capacity right now, what are the revenues we can generate?

Akshay Kanoria: We can generate Rs. 400-plus crore of revenue, yes.

Pavan Kumar: Then one last question from my side, Akshay. Basically, on the subsidy side, especially on the hard packaging side, what can we do further to actually get some kind of traction there? Because I think we are still underutilized there to the extent of 40%, 50%, if I'm right. So, what can we do there? And are we still saying over the medium term, we can grow at, let's say, roughly 12% to 15% in terms of the top line? Or how do we look at it?

Akshay Kanoria: So, in that, we have a very low base, as you've rightly pointed out. And even last year, we had high double-digit growth in the top line. But yes, at a very low base. So, that we aim to do a high double-digit growth going forward, but that's not enough. Obviously, we have to do much higher, as the constraint over there and the concern. But we are penetrating into new customers all the time and with a couple of our key customers also where we have not grown to a satisfactory level. This year, we are seeing a much better outlook. And overall, we are still quite confident in the long-term prospects of this business, and there is sufficient scope even apart from the electronics customers, even in our bread-and-butter customers, like in the FMCG space. Now they have also been quite open to exploring these types of packaging for their premium gifting and all these segments. So, having this capability and being able to market it to a broader segment of customers is a big value add for us. So, beyond just even the unit's profitability for the Company as a whole also there is a big positive that it has because we increase our category that we can sort of cater to our customer and it's a similar technology and similar know-how and everything. So, considering all that, we are still quite positive on the business. And there's no reason why we can't grow this further substantially.

Pavan Kumar: And at the Company level as well, are you saying 15% kind of top line growth is achievable, maybe not over the medium term?

Akshay Kanoria: Yes, yes. I mean we are doing that more or less.

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

Pulkit Singhal: Congrats on a great set of numbers and a good performance. My question is largely on the margin front. We now have 2 consecutive quarters of 17.5%. Now when I look at the past cycle, you mentioned about 17% kind of peak margins. But then this time around, there are 2 or 3 things which are quite different. Exports are a much higher share of our business now. And we also have other segments other than paper cartons. And also, I think our size is much bigger, right? Versus competition. I think the difference has grown. The top 3 players are much larger than the next set of players. So, is there a case for going beyond what we have achieved in the past, given that this time things are quite different?

Akshay Kanoria: Yes, I mean, I have sort of answered this question already. But look, so far, we are doing this. And we hope to continue for the coming future. And of course, we always hope to improve. There's always scope for better. And ideally, if every machine is well utilized and we are running full up everywhere, then of course the margin can be further bettered on just operating leverage. But by then, you're doing some capex or the other. So, long term, you have to balance the growth and the margin. So, that is the fundamental balancing act, I guess, that any manufacturing business has to sort of manage, right. So, we are doing that to the best extent that we can.

Pulkit Singhal: But in paperboard, the competitive intensity this time versus, let's say, pre-COVID or 10 years ago, is there a case that because the customers themselves are preferring to work with consolidating the suppliers or just because of our scale difference, is there a case to say that the competitive intensity is lower than what it was 10 years ago within paperboard?

Akshay Kanoria: Compared to 10 years ago, yes, I think it's more competitive, and it is a much tougher business than it was 10 years ago. I mean that may not be fair statement. But certainly, there's more competition and the scale of everything has grown, including the customers and the knowledge of the customers has increased compared to the past. So, it's a competitive space. But still, we try to find our way through that.

Pulkit Singhal: So, you're saying it's more competitive now.

Akshay Kanoria: Yes.

Moderator: The next question is from the line of Abhisar Jain from Monarch AIF.

Abhisar Jain: Sir, just a question on the new plant, the greenfield plant at Chennai. So, here, as I understand from your previous indication on this capacity, we will not be doing the flexible packaging because we do have the facility and we added at the other plant and hence this is going to be just for carton manufacturing. And when can we see the revenue starting from this plant?

Akshay Kanoria: Okay. Yes. So, on Chennai, this is going to be a paperboard mono carton plant basically, similar to our other units pan India. And no plan for flexible packaging over there right now. And we hope to start this plant by Diwali. And it will take a few months for customers to give orders and some customers can start immediately. But our larger customers typically take a few months because they have their audit requirements, then there are certain audits, which we have to do for them to even initiate their audit of our plant. So, all those things take a few months. And so, it takes like typically 6 months to a year to really get some respectable numbers flowing, but we try to do it as fast as we can to scale up.

Abhisar Jain: Right, sir. Understood. And since you mentioned that this will be near to our clients and it can enhance our logistical strength and service capabilities, do you expect any positive or negative impact of that on our overall margins? Or will that in the scale up time will not be much of an impact per se?

Akshay Kanoria: So, for the first year, at least definitely there will be a negative impact only on the margin because, of course, there is an overhead and all of which you're not going to be utilizing. And then over a period of time, it should normalize to a similar level to the rest of the segment.

Abhisar Jain: And coming to the Innofilms where you had mentioned that we have kind of stabilized the quality, and we were kind of making an effort to get the commercial supplies going to our customers. So, can you give some color there of how is it progressing? What is the traction you are seeing? And since this had a drag on our P&L in FY24, how do you see it impacting the P&L going ahead now?

Akshay Kanoria: Yes. So, on Innofilms, we have stabilized the basic quality of the film, and we are making now satisfactory quality. But the overall scale up takes a lot of time because once the quality is stabilized, then only you start really pushing the products more in the market. So, that takes some time. It also sort of lost some time in the middle, which we are making up for now. We have merged this Company into TCPL now. So, from now onwards, it will show in standalone numbers only. And the drag also, we expect now to get minimized going forward. And we have commercialized certain innovative products with large MNC customers of ours such as Unilever and Nestle for some of their currently nonrecyclable packaging where they have gone ahead on recyclable mono-material, packaging with us. And yes, so this being just the start, but we have already cracked 2 very large clients in this space and are expecting more clients further. And we are also working on certain other innovative films and packaging solutions through that unit. So, we are seeing some traction in the coming months.

Abhisar Jain: And hence now there are no hiccups in production at that unit per se, right? It's just the scale up of the clients, which will take its own sweet time. But from the mechanical side, production side, there is no issues, right?

Akshay Kanoria: Yes. So, on the production side now there is no issue. And one big tailwind for us, which is yet to come is the government legislation where eventually we see globally government sort of are giving a big push to recyclable packaging, but that's not happened yet in India. So, we are quite hopeful, but in the next few years, there should be more push on this.

Abhisar Jain: Sir, just the last question if I can squeeze in on the balance sheet side and capital allocation going ahead. As it appears to me now from the numbers post the capex guidance that you gave for this year and with giving the 20% dividend that we generally give, there will still be surplus cash flow in hand. So, would that be going more towards deleveraging? Or do you have some other expansion plans that you want to undertake before the debt starts coming down?

Akshay Kanoria: So, we have a lot of plans, but typically what gets converted into reality is a smaller percentage because we have a very rigorous process, and we need to be very convinced of any new venture, any new opportunity before we jump in. And in the absence of any of those going ahead, then yes, I mean, naturally, it will end up lightening the load on the balance sheet. And as it is, even a higher capex than what we have sort of indicated, I think we can still manage our ratios and all of that very comfortably.

Abhisar Jain: Thank you and best of luck with the commissioning of the new plant and the other initiatives ahead.

Moderator: The next question is from the line of Manan Vandur from Wallfort PMS.

Manan Vandur: Congratulations on the numbers. I have 1 question. So, the new plant, which is going to come up in Chennai, what is the peak revenue potential that we can get from that?

Akshay Kanoria: So, it's a single line that we are putting up to begin with. As a Company, we have about 20 lines. So, we don't give the data unit wise, but you can infer from content.

Manan Vandur: And when can we see optimal utilization in the scaled plant?

Akshay Kanoria: Yes. So, as I said to Abhisar, it typically takes 6 months to a year for any new plant to scale up.

Moderator: The next question is from the line of Miraj Shah from Arihant Capital.

Miraj Shah: Just a couple of questions, sir. First is in terms of Chennai plant that is coming up. What would be the capacity? If you could share that? And as a percentage of your total capacity, what will it be?

Akshay Kanoria: So, roughly about 5%, I think, of the total – That is the capacity that will get added.

Miraj Shah: And the Rs. 100 crore capex that you spoke of for this year, that includes any capex for this plant, right?

Akshay Kanoria: Yes.

Miraj Shah: And sir, in the flexible packaging segment that we have, what kind of films are we manufacturing, is it BOPP, BOPET, CPP if you could tell me something?

Akshay Kanoria: So, our flexible packaging business is utilizing all these films to manufacture packaging materials, including doing the printing on those films and then laminating it to other films. The Innofilms business, which we merged in, manufactures polyethylene film (PE), which is used as a feedstock in our flexible packaging business. But now it's one business because it's merged in.

Miraj Shah: And lastly, sir, just wanted to know if you would be releasing the presentation for this quarter, I don’t think I saw it?

Akshay Kanoria: Yes. About that PPT this time, we just thought that same info was in the press release. So, this setup was redundant. So, we just put up only the press release. But sure, next time, we will have the PPT.

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

Pavan Kumar: Akshay, do you see any particular opportunities in leverage reduction going forward? It is almost the same question as the previous participant. At least for the next 1, 1.5 years, there should be some free cash flow. So, should we see some reduction on debt or on that particular direction?

Akshay Kanoria: Yes. So, we are very growth hungry, and we are evaluating many opportunities. So, ideally all those opportunities pan out and then we are full up with that, but I mean that never happens.

Pavan Kumar: So, when we are talking about opportunities, I understand you are already there in Northeast Guwahati. So, are you looking for some plant? I understand that there is one small plant being put up in the South. So, is it like we are going to scale the south plant. So, is that the kind of opportunities you are looking at? Or something totally new?

Akshay Kanoria: A bit of both.

Moderator: The next question is from the line of Manas Thakkar, an individual investor.

Manas Thakkar: Sir, as it was mentioned in quarter 4 presentation, around 30% to 35% of the revenue comes from exports. So, do you have any plans towards increasing your export share?

Akshay Kanoria: So we don't really give the exact share. But ideally, we would love to grow our exports further and the share has grown substantially over the last several years. So, while it can certainly continue to grow, ideally, the domestic business should grow faster because the opportunity here is vast. And we don't see any issue in the long term and growing in double digits domestically. So, that on its own will restrict the share to a certain level.

Manas Thakkar: So, like operating margins are higher in domestic sales compared to exports?

Akshay Kanoria: That, we can't give any numbers for on this platform.

Manas Thakkar: So, when you mentioned that you were trying to increase your exports earlier, were you aiming to penetrate existing markets or explore new regions?

Akshay Kanoria: Both.

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

Akshay Kanoria: Thank you. I hope we have been able to answer all your questions. Should you need any further clarifications or if you'd like to know more about the Company, please do feel free to contact us or CDR India. Thank you again for taking the time to join us on this call and we look forward to interacting with you next quarter. Thank you.

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