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9<sup>th</sup> February 2024

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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 the Q3 & 9M FY2024 Results Conference Call**

With reference to the aforesaid subject, attached is transcripts of the conference call held on 6<sup>th</sup> February 2024, with the Investors and Analysts.

The aforesaid information is also available on the website of the Company at [www.tcpl.in](http://www.tcpl.in).

Kindly take the same on record and acknowledge the receipt.

Thanking You

For **TCPL Packaging Limited**

Compliance Officer



## TCPL Packaging Limited

### Q3 & 9M FY24 Earnings Conference Call Transcript

February 06, 2024

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**Moderator:** Ladies and gentlemen, good day and welcome to TCPL Packaging Limited' 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, sir.

**Anoop Poojari:** Thank you. Good afternoon, everyone and thank you for joining us on TCPL Packaging's Q3 and 9M FY24 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 a 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 our Earnings Call for the period ended December 31<sup>st</sup>, 2023.

I trust all of you have had the opportunity to go through our results shared with you earlier. 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 have Q&A session.

In recent quarters, our Company has demonstrated remarkable resilience in navigating through the challenges in the domestic market. This period saw subdued demand growth, particularly in the liquor segment due to decarbonization, along with a notable decline in raw material pricing. Despite these factors, our performance in export and growing contribution from the flexible segment has supported overall growth in the first nine months. The impact of reduced volumes post festive season has been notable, especially affecting growth in Q3.

On a consolidated basis, the Q3 FY24 revenue decreased by 4% standing at Rs. 364 crore. However, in nine months FY24 our revenues expanded by 5% year-on-year to Rs. 1,141 crore. On the profitability front, though we reported a healthy standalone EBITDA of Rs. 59 crore leading to a healthy margin of 16.6%. The performance of our subsidiaries TCPL Innofilms and Creative Offset adversely impacted our consolidated margin. As a result, our consolidated EBITDA stood at Rs. 55 crore with margin at 15%.

In the TCPL Innofilms vertical, we have encountered certain setbacks on our new blown film line. Our internal team along with the machine vendor are actively working towards addressing these issues with the resolution anticipated in the next few months. However, despite these setbacks we are making good progress in the development of sustainable packaging using our MDO PE Film. This initiative has successfully supported one of the world's largest FMCG companies in introducing their first fully recyclable MDO PE mono polymer pouch for their tea brand in India.

Regarding Creative, while domestic electronic demand has remained subdued particularly after the festive season, the vertical has successfully secured many new customers contributing to encouraging year-on-year growth. Recently we acquired the remaining stakes in Creative from the previous promoter achieving 100% ownership. We remain confident in Creative's huge potential despite the near-term challenges. As we actively work on scaling its operations, we expect a positive contribution to our profitability from next year onwards.

On the operational front, we are pleased to announce the successful initiation of our third flexible line at our Silvassa facility. The incorporation of a new BOBST Rotogravure Printing Press into the flexible packaging unit in Silvassa complements the existing two lines. With the addition of this state-of-the-art printing press along with other balancing and post press equipment, we have significantly increased our production capacity for flexible packaging.

In conclusion, we are actively broadening our reach through customer and sector diversification. Despite short term challenges we maintain a positive outlook recognizing the structural growth trends in Indian manufacturing sector including packaging. With investments in enhancing our capabilities within both paperboard and flexible segments, we believe TCPL is well positioned to leverage this opportunity.

On that note I would request 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 Pavan Kumar from Ratnatraya Capital.

**Pavan Kumar:** On the Creative side, I understand the predictability of the rest of the business but on the Creative side what are the factors that particularly drive this business and going forward what is the full capacity, what will be the revenues that you would be able to achieve here and are there any CAPEX plans on that side?

**Akshay Kanoria:** So, what drives the business, I didn't understand clearly but I think basically you mean like what's the industry like?



**Pavan Kumar:** Basically Akshay, what I was asking was looks like from whatever numbers that have been put out, the contribution from Creative side at least on the revenues seem to have almost half as compared to the last quarter. So, I am just wondering.

**Akshay Kanoria:** So, your line is a bit unclear but that's not correct. The revenue of Creative is growing by high double digits. So that way there's growth. There's no concern in terms of growth but it's still at a low base. So, the overall business still has a long way to go. As far as the industries that factory mostly targets, the electronics business. But we have made some headway with FMCG, cosmetics and food and those kinds of customers as well where we see in long term there being a very good growth potential as those brands start preimmunizing more and more. I hope that answered your question.

**Pavan Kumar:** On the capacity and CAPEX.

**Akshay Kanoria:** On the capacity side, we have enhanced substantially the capacity since we took over the factory. And we recently did a major renovation to the plant as well as upgradation of the printing equipment. So, we have enough capacity now to go into triple digit figures because basically this kind of product line, there's a very big variation in the value one can output on the machines over there based on the quality of job. Because you can do a box of Rs. 250 - 300 also, you can do of Rs. 20 also. So, the capacity does not vary that much. It's not like the same way of working.

**Saket Kanoria:** Just to add, Creative has achieved a 20% growth on top line in the current year so far.

**Pavan Kumar:** For this particular quarter what would be the revenues, can you please outline if that would be possible?

**Akshay Kanoria:** We don't give the quarter wise revenue for the subsidiary Company but there is a high double-digit growth.

**Pavan Kumar:** That you are saying for the nine months number, right?

**Saket Kanoria:** Even for the quarter.

**Akshay Kanoria:** In the quarter it was (+90%) growth.

**Pavan Kumar:** And any CAPEX plans next year on the Creative side to further enhance the capacity?

**Akshay Kanoria:** Nothing significant.

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

**Vipul Shah:** For the first time we are seeing actual sequential decline in the trailing 12-month revenue and the EBITDA, although gross profit has shown minor growth. I read your comments in the second quarter, you mentioned there was good volume growth. So just wanted to check in this Third Quarter how much of a volume decline we have seen?

**Saket Kanoria:** Actually, you're saying trailing 12 months we are declined, we have not declined. In fact, if we talk about the current year in nine months our revenue has grown 5% firstly. But there's another metric which I would like to add which is the net conversion



revenue. Because what happened is that the raw material prices in the current year have gone down compared to the elevated raw material rates in 2022 and so if we see the FY21-22, the Company had a revenue of Rs.1,055 crore which grew 32% to a revenue of Rs.1,400 crore in FY22-23 and on that base, we are now 5% up. However, the net conversion revenue last year that is FY23 grew 37% while revenue grew 32%, net conversion revenue grew 37%. And in the current year the same rate has been maintained. So, what we are seeing is that the top line shows that the growth is very moderate. But that is essentially out of raw material pricing correction because the international prices of all feedstocks have gone down significantly and that has affected our revenue obviously because paperboard price and polyester film and BOPP and all substrate rates have gone down significantly in the current year.

- Vipul Shah:** So, in this Third Quarter is there any volume decline we've seen?
- Akshay Kanoria:** Volume is basically flat in the Third Quarter. Basically, after Diwali where the demand growth has been very subdued.
- Saket Kanoria:** There was a lot of inventory in the pipeline at our customers end. So, the uptick was more subdued than every year after Diwali there's a bit of a hangover. This time it was slightly worse than usual because there was a lot of stock in the system.
- Akshay Kanoria:** But that quarter what we see.
- Vipul Shah:** Because generally also if I read the MD's comment that this liquor decarbonizing has also been an issue because generally Third Quarter and you see the results of the liquor companies also. So, they have actually reported pretty decent numbers. So just one question which I had is that, is this liquor decarbonizing a temporary setback or in your view it is a much more secular shift to maybe other packaging materials?
- Saket Kanoria:** I mean right now the liquor companies is not moving to any other packaging material. They are selling the bottle without packaging at all. This seems to be a decision taken by these two global multinationals except for limited edition packs for which they still buy some packaging. But yes, it's a big decline and now how much time it will continue for or whether it will continue forever is something very hard to predict. Obviously, we would like them to come back consumers. Ultimately, it's to be decided by consumers and how they perceive the product. So, it's a bit early to comment on that. For us it's a very big impact because while our nine-month growth has been 5%, if liquor was not declining the way it has, we would have been a very comfortable double-digit growth.
- Vipul Shah:** Last if I may, have we also seen some slowdown in the exports this quarter specifically and going forward with the geopolitical disturbances which are there do we envisage a more subdued export potential?
- Saket Kanoria:** In export the challenge of course right now, which is for the last 6-7 weeks is this crisis in the Red Sea which is pushing up sea freight and also the time to market. But otherwise, the export has performed all right and going forward also we don't expect any big change. Of course, if the Red Sea continues for another one year or something like that then that is bound to impact all companies and all types of products.
- Moderator:** The next question is from the line of Sourav Dutta from Minerva Asset Advisors.
- Sourav Dutta:** So just for housekeeping, I wanted to understand how did the EBITDA-per-converted ton moved in the standalone business?



**Saket Kanoria:** For converted ton, we don't really measure that metric, but you must have seen the data in terms of percentage of revenue which has in fact increased in the standalone company.

**Sourav Dutta:** But revenue might have lower in terms of how paperboard is, plastic is being priced which is why I wanted to know this metric.

**Saket Kanoria:** We don't look at per ton way.

**Sourav Dutta:** So again, would it be possible to break down the revenue decline in Innofilms and the COPPL business by volume and pricing?

**Saket Kanoria:** That's not possible to do that. Again, it's not homogeneous material. There's no revenue decline though in either of those two companies.

**Sourav Dutta:** Not even for the quarter in particular?

**Saket Kanoria:** Yes, not even for the quarter.

**Sourav Dutta:** And finally, can you quantify the expected revenue impact in FY24 from decarbonizing in the spirits industry? Also, would you expect to see more of this in FY25?

**Saket Kanoria:** I think FY24 has borne the brunt of the decline in the carton, decarbonizing for the liquor. So, in FY25 the starting point itself is low so we won't see any further decline.

**Moderator:** The next question is from the line of Jainis Chheda from Spark PWM.

**Jainis Chheda:** We already cover TCPL Packaging. More than question I would like to give a suggestion or feedback that since now we have started a third flexi packaging line as well, can we get a quarterly breakup at least in terms of what is our flexi revenue versus our carton revenues on a quarterly basis and how much is our export revenue versus domestic revenue on a quarterly basis? Is it possible to incorporate that in our quarterly presentations?

**Saket Kanoria:** See we will consider your suggestion, and our presentation is quite elaborate in any case. So, we will discuss, and we will see what to the extent we can share.

**Akshay Kanoria:** Thanks very much for your coverage and interest. But the competition is all private. All are looking at our numbers and few will be attending these calls also. So, we have to balance the info we share and what we don't share.

**Jainis Chheda:** Completely understand the privacy aspect of the business but still some directional data will help us understand a bit more. Secondly my question is to do with employee cost which have gone up, any particular reason behind that?

**Saket Kanoria:** Employee cost has gone up in line with the big increase in minimum wages in the current year. There's been an unprecedented, almost 15% increase in minimum wage almost across all our plants. So that is one factor. The second is of course the annual increments and the third is some increase in headcount because of the higher capacity which has been created. So, while the revenue has gone up 5%, employee cost has gone up 13% -14%-15%. But it's a base for the future really. We should be able to normalize that.



**Moderator:** The next question is from Nikhil Shetty from Nuvama Wealth.

**Nikhil Shetty:** As per our understanding export growth pace was slow during Q3 when we compared it to Q1 and Q2 this year. Plus, I believe as per our calculation around 8% to 10% kind of a domestic business degrew this quarter maybe because of the volume or the slower second half of this quarter. Is it the right understanding?

**Saket Kanoria:** The export has not grown in Q3 compared to Q2. You're basically on the right track maybe by a quarter or so the difference. But the domestic has not declined really. The total is about flat in the current quarter, total revenue.

**Nikhil Shetty:** So, is there any seasonality in the exposed market or is it because of a base or due to some Red Sea issue?

**Saket Kanoria:** There's not any major seasonality I would say. I mean unlike in the domestic which is quite seasonal nowadays because of lead up to Diwali is generally more buoyant. In export we don't find any such event..

**Nikhil Shetty:** Is there a base left due to decarbonization in Q4 or it is already done? Now we are at a breakeven and Q4 will not see impact of decarbonization base.

**Saket Kanoria:** Yes, Q4 we will see much lesser impact of decarbonizing because decarbonizing started from July-August 2022 and then slowly the impact came. So, we've seen the brunt of it and in this current quarter still. There will be some impact but probably from next year I guess it should be normalized. Next financial year will be normal.

**Nikhil Shetty:** Q1 onwards you're saying?

**Saket Kanoria:** Yes.

**Nikhil Shetty:** During your opening remarks, you mentioned about adding a new customer Innofilms. So, what kind of opportunity we can expect from this particular customer?

**Saket Kanoria:** What I mentioned is that we have launched this fully recyclable packaging, made out of the film from Innofilms. Innofilms has great opportunity, but we had some challenges on the technical side with the equipment which we are working towards a settlement with the machine supplier. But yes, overall, I think if you ask me would you do the investment, again, I will say yes because that is the future.

**Nikhil Shetty:** But how we are going to serve this customer then?

**Saket Kanoria:** The machine is in operation, and we are able to manufacture the material. The only issue is about the wastage and the productivity which should be better than what it is.

**Nikhil Shetty:** Since the installation of this machine, we are facing lots of issues and I believe from last one-year you guys are trying hard to stabilize and get desired output, but it is still not able to achieve. I know this is new technology but still by when we can expect these all things get settled.

**Saket Kanoria:** We are quite hopeful now that in another month or two it should be normalized because a German Company has found out the root cause and they are sending us the requisite parts which will be changing as also they have modified some software

so they expect that they will be able to put this right. And then we have to discuss with them compensation for the losses incurred by us.

- Moderator:** The next question is from Bhavesh Jain from DB Investment Advisors.
- Bhavesh Jain:** We saw sequential debt reduction on QoQ basis by Rs. 40 crore around to Rs. 487 crore. So, what is the year end figure we can expect?
- Saket Kanoria:** The debt comprises of working capital and term debt.
- Bhavesh Jain:** Talking about the net debt figure you have mentioned.
- Saket Kanoria:** Year-end figure compared to the Q3 figure, I would say, it should be pretty much little lower than the Q3 figure because we have some repayments in the current quarter and drawdown on new debt in the current quarter is going to be very marginal because our CAPEX for the current year is almost completed. So, there's no new CAPEX really in this next two months.
- Bhavesh Jain:** Are we targeting for any aggressive debt reduction further ahead?
- Saket Kanoria:** No, we are not targeting any aggressive debt reduction because as you know we have a constant growth target and therefore we continuously expand capacities. This current year we've added four new printing lines, which is quite unprecedented. So, it depends really on how much the potential to grow and basis that CAPEX is going to be planned.
- Bhavesh Jain:** My second question is regarding the TCPL Innofilms. So, we have seen some operational issues from past three quarters. So just wanted you touch upon what kind of revenue potential we can expect from this subsidiary.
- Saket Kanoria:** This subsidiary firstly is getting merged into the parent Company and NCLT has now passed an order and hopefully it will happen. So, the revenue will get merged and essentially the film produced, this is going to be used in house only. So, it's not that we are going to sell too much of the film. So, the potential is to replace raw material which we buy today with our own film.
- Bhavesh Jain:** I just asked because in Q2 we mentioned that we will start supplying to the third party.
- Saket Kanoria:** We do some film sale, but the focus is to convert it and to make it into the packaging.
- Bhavesh Jain:** My last question is regarding the we saw other income of around Rs. 7 crore this quarter. So, what is it about, what is the nature of it?
- Saket Kanoria:** That's all-operational other income like export benefits and scrap sales etc. So, this is a pretty normal figure. Nothing exceptional.
- Moderator:** The next question is from Harshil Shethia from Ladderup Wealth.
- Harshil Shethia:** Just wanted to confirm news. Is there any news that Borkar Packaging is under the weather?
- Saket Kanoria:** I don't know. I can't comment on this. They are very much in business.





**Akshay Kanoria:** We don't like to comment on competitors on these calls but under the weather, I don't know.

**Moderator:** The next question is from Resham Jain from DSP Asset Managers.

**Resham Jain:** I have just one question. In terms of capacity utilization, where are we currently, both in carton as well as in flexible? With the addition of new lines this year and films plus Creative further getting added will ramp up let's say next 2-3 years. So, what kind of growth one should expect at a consolidated level over the medium term?

**Saket Kanoria:** I would say we are around 70%-72% capacity utilization currently and we should be able to target to go up to 85%-90% ideally. And yes, Creative has the potential to increase its revenue almost 50% from its current base. Innofilms as I said there's not much revenue generation there because it will be more substitution of our raw material. And on the other side you can say that from 70%-72% if we go up to 90% that's the headroom, we have with us. So overall I would say 20%-25% headroom for growth based on current capacity.

**Moderator:** The next question is from Riya Mehta from Aequitas Investments.

**Riya Mehta:** My first question is in regard to the raw material. We were saying that the prices of VOBP and all those packaging material have gone down. So how are the prices currently in the month of January? Are we seeing a further decline?

**Saket Kanoria:** No, in the month of January in fact the prices are going up a little bit because again this Red Sea is causing some disruption in their raw material. But it is not anything significant. It's a marginal increase.

**Akshay Kanoria:** Just to add on that, basically I think we are at the kind of bottoming out of the RM pricing now it should start going up slowly.

**Riya Mehta:** In terms of flexible packaging as you said that we have a headroom for 20% to 25% growth. Do we have any further capacity of brownfield expansion post this?

**Saket Kanoria:** No. Right now, we have completed all our current expansions and nothing immediate on the envil.

**Riya Mehta:** And currently the utilization level of 70% to 72% is for the two lines, right?

**Saket Kanoria:** We are talking about the Company as a whole.

**Riya Mehta:** And for flexible as a segment if you could help me.

**Saket Kanoria:** So, in flexible we used to have two lines. The third has just got commissioned. So, the capacity utilization there is obviously lower and there's a big headroom there.

**Riya Mehta:** The third line how much that would be?

**Akshay Kanoria:** That will become 30% of the total capacity. So that's all free right now plus a little bit from the last two lines.



**Saket Kanoria:** Basically, the third line has just been commissioned. So therefore, the capacity utilization in the flexible considering the third line is lower than it is in carton. But the third line has just got commissioned as we speak in the January month.

**Riya Mehta:** My question was more pertaining towards the existing two lines. What would be the capacity utilization there?

**Akshay Kanoria:** It was obviously it will be large percent. Otherwise, then we wouldn't have put the third line.

**Riya Mehta:** And in case we want to put a fourth line is there a possibility?

**Saket Kanoria:** Yes, there is a space available if that's your question.

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

**Pavan Kumar:** What would be the CAPEX plans going forward? Since we have already made the additions do we see any CAPEX plans in the near term or how do we look at that?

**Saket Kanoria:** So, in the next financial year we haven't yet formed up our CAPEX plans, but they are kind of moderate. There's not a very heavy CAPEX next year unless something new comes up.

**Pavan Kumar:** And to fill this new flexible line capacity and also the paperboard capacity which we have got extra how much time do you envisage it will take us?

**Saket Kanoria:** This is an ongoing activity so it will take a couple of quarters at least. You will see better performance as we go along.

**Pavan Kumar:** So, are you saying in a couple of quarters full utilization?

**Saket Kanoria:** No not full. I am saying there will be a gradual increase quarter-on-quarter.

**Pavan Kumar:** Can we expect more than double digit growth at least for the next year? How do we look at that?

**Saket Kanoria:** Our target is always to grow double digit and certainly we would feel let down if we can't do that.

**Pavan Kumar:** Do we think our current margin levels are sustainable at least on the EBITDA margin front?

**Saket Kanoria:** You have to see our data for last few years to answer that question.

**Moderator:** The next question is from Pulkit Singhal from Dalmus Capital Management.

**Pulkit Singhal:** First question is on the domestic side. What is the potential for market share gains going ahead here? I know we have been gaining at a certain rate out there. One of the key competitors has also been growing quite rapidly. I am just wondering if you could share some initiatives or some white spaces or do you see some areas of faster growth than whatever the market is performing?

- Akshay Kanoria:** Hi Pulkit I'll answer this question. See specific segments I won't get into but there are many segments where we have very limited presence still or we have no presence also. There are some geographies of the country where we have no presence. In these segments and these geographies there is always a scope for us to grow in future. There is our general customer growth which has been very subdued these last few years and we expect or hope that it will improve and further there is a premiumization and value addition and whatever we do. So that also adds on some growth and yes, there is always further scope even within our existing customers to add more share. Now about the competition certainly people will try to grow as fast as they can but it's our job as responsible stewards of the Company to ensure that we balance that with the sustainable kind of margin profile. So definitely we are not in the business of losing share of business.
- Saket Kanoria:** But the point is that if the basic underlying market doesn't grow then even no Company can beat that. Ultimately it depends on the overall market.
- Pulkit Singhal:** Yes, I guess your ability to increase share is also better when the market grows when in the declining market gets tougher. And secondly on the Creative side good to know that you've increased capacity. What are the peak revenues which is now possible from the enhanced capacity?
- Akshay Kanoria:** Basically, as I said earlier it can go to triple digit crore revenue, but it really depends on the product mix because in this rigid box business it's dependent on the kind of job that you get. So, the capacity figure per se is not really very meaningful.
- Pulkit Singhal:** You had this target of Rs.100 crore for this business segment.
- Akshay Kanoria:** Yes, we continue to have that.
- Pulkit Singhal:** Any sense of how many years it might take before we reach there?
- Akshay Kanoria:** No, but it's growing every year. So, the rate of growth is a very low base. So really one or two customers can really boost that performance up.
- Pulkit Singhal:** And last on the exports bit any update? I know you were targeting the US market and you're also trying to build up the sales to address various other markets. Any update out there? Are you seeing some of those conversations convert into orders or what are the concerns that they might have?
- Akshay Kanoria:** It's a work in progress it's constant effort it's going on and overall, no concern as such.
- Saket Kanoria:** It's positive overall.
- Moderator:** Thank you very much. As there are no further questions, I would now like to hand the conference back to the management team for closing comments.
- Saket Kanoria:** Thank you everybody. I hope we have been able to answer all your questions. Should you need any further clarifications, or you would like to know more about us, do feel free to contact us or CDR India. Thank you again for taking the time to join us on this call and look forward to interacting again with you all in the future.

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