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

31st May 2023

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 the Q4 & FY23 Earnings Conference Call

With reference to the aforesaid subject, attached is transcript of the conference call held on 29th May 2023, with the Investors and Analysts.

The transcript of the conference call has also been uploaded 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**

HARISH ANCHAN
Digitally signed by HARISH ANCHAN
Date: 2023.05.31 11:09:10 +05'30'

Compliance Officer

TCPL Packaging Limited

Q4 & FY23 Earnings Conference Call Transcript
May 29, 2023

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. 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 Pujari from CDR India. Thank you, and over to you, Sir.

Anoop Pujari: Good afternoon, everyone. And thank you for joining us on TCPL Packaging's Q4 & FY23 Earnings Conference Call.

We have with us today Mr. Saket Kanoria – Managing Director; Akshay Kanoria – Executive Director; Vidur Kanoria – Executive Director; and 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-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 of 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. Over to you, sir.

Saket Kanoria: Good afternoon, everyone. And thank you all for joining us on TCPL Packaging's Quarter 4 & FY23 Earnings Conference Call.

I will begin the call by taking you through the key financial and operational highlights for the period ended March 31st, 2023, after which we shall open the forum to have a Q&A session.

We are delighted to announce the successful conclusion of yet another remarkable year. In FY23, our consolidated revenues reached Rs. 1475 crore, reflecting an impressive 36% increase over the previous year. This performance was driven by notable contributions from both our folding carton and flexible packaging division. Despite facing subdued demand, we strategically capitalized on opportunities enabling us to achieve healthy growth.

On the profitability front, we have achieved a record EBITDA at Rs. 236 crore translating into strong margins of around 16%. We delivered robust margin performance by successfully mitigating the effects of increased raw material costs witnessed during the year and leveraging operational efficiency. In FY23, PBT significantly improved by 98% to Rs. 132 crore. Profit after tax expanded by 136% to Rs. 210 crore and cash profits stood strong at Rs. 216 crore up 74% on a year-on-year basis. The profit figures include an exceptional one-off income of Rs. 17.3 crore reported in Q2 of FY23.

Here I am pleased to announce that the Board of Directors has recommended a dividend of Rs. 20 per share, making it the 23rd consecutive year of continuous dividend payout in line with our dividend policy.

In line with the expansion plans, we have successfully commissioned a state-of-the-art Advanced Offset Printing line and associated equipment at our Silvassa facility. Moreover, we successfully acquired and seamlessly integrated neighboring properties to accommodate the increased capacity space demand. Additionally, plans are underway to install a new line at our Haridwar facility and establish a third line in our Flexible Packaging Plant both scheduled for the latter half of the Financial Year 23-24. These initiatives align with our focus on sustainable business growth while generating healthy return ratios. I am pleased to highlight that in FY23, our consolidated return on capital employed and return on equity stood impressively at 20% and 28%, respectively. To enhance operational efficiency, the Board has decided to merge TCPL Innofilms, our wholly owned subsidiary, with the parent Company. This integration will result in cost savings by eliminating redundant paperwork and streamlining operations, optimizing resources, and improving productivity.

We are also excited to announce the addition of Dr. Andreas Blaschke to our esteemed Board of Directors as an Independent Director, which is subject to approval of the shareholders at the upcoming Annual General Meeting. He will serve as an Independent Director for a span of five years. With over 3 decades of global experience, Dr. Blaschke will bring a wealth of knowledge and expertise to TCPL's Board.

In addition, we are also pleased to appoint Vidur Kanoria as the Executive Director, reinforcing business development and administration. Vidur's consistent education and expertise have been pivotal in driving the Company's sales and revenue growth and contributing to its overall success.

As a leading provider of ecofriendly packaging solutions in India, we have established ourselves as a trusted name in the industry with quality being the cornerstone of our packaging solution. Our commitment to excellence in quality has been recognized through prestigious accolades, including our recent achievement at "Marico's Supplier Quality Excellence Meet" and the SIES School of Packaging's "Annual SOP Star Awards 2022 where we were honored for "Outstanding Print Excellence".

To conclude, TCPL is well positioned to meet the growing demand for environmental-friendly packaging solutions. Our focus strategy to grow through diversification has enabled us to consistently outperform our underlying industries. We remain committed to sustainably growing the Company in the future, for which we believe should help create sustainable value for all our stakeholders.

On that note, I would like to end my opening remarks and would now like the moderator to open up the forum for any questions or suggestions that you 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 Ratna Traya Capital.

Pavan Kumar: Sir, first of all congratulations on a good set of numbers and stable operating performance. I wanted to understand our subsidiaries performance. In FY23, I understand the Creative did revenues of Rs. 32 crore, but how much money did we actually lose in FY23 on Creative side? And going forward in FY24, when do we expect to breakeven and what scale do we expect to breakeven?

Saket Kanoria: Creative, you know, we acquired the Company in December 2021 and this year gone by it is the first full financial year that it has been as a subsidiary. I agree that it has taken a little long time to stabilize the Company and its performance, but also we have unfortunately coincided with kind of a slump in the demand for mobile phones. The overall demand this past 6-7 months has been quite slow. However, we are making good progress and we feel that we are quite poised to achieve much better performance in the current year 2023-24 and going forward because a lot of hard work has been done to upgrade the plant, the efficiency, the quality, and we have broad-based customer profile also. And therefore, we are quite confident now that in the current year, we should make money and not lose money. Last year on EBITDA we were almost breakeven but on a net level, we have lost money. But the Company's revenue grew 31% last year.

Pavan Kumar: And then what will be the revenue potential for this unit?

Saket Kanoria: Revenue potential is about Rs. 100 crore, but we are still far away from that.

Pavan Kumar: But is it a fair expectation that by let us say in FY24 and FY25 together we can scale this unit up to around Rs. 100 crore and it will make similar EBITDA margins for the rest of the business.

Saket Kanoria: We are trying to scale it as soon as we can. I do not know whether we can go 3x in two years, but certainly we expect to grow quite strongly.

Pavan Kumar: And on the Innofilms side, how much money did we lose any indication that you can give please?

Saket Kanoria: Innofilms again is a futuristic technology, but we have had some challenges with the technology itself that the machine had some snag during the year and some parts had to be replaced which the machine supplier has done and then one more part is on order. So, for another 2-3 months, it is going to struggle and then things should start turning around. So, here also on an EBITDA level, we have lost money about Rs. 1.5 crore but we hope that this year, once the new parts come and the machine stabilize, we should be able to make it up and however, the Board of Directors have recommended to merge the Company into TCPL because we do not see any reason to keep it standalone so it will get integrated.

Pavan Kumar: And can you throw some light on the background of Mr Andreas.

Saket Kanoria: Dr. Andreas Blaschke worked in the packaging industry in Europe's largest folding carton manufacturer, and he has recently retired from his job there and we know him for a long time, so we requested him to join the Board. He is from Vienna, Austria and is a very prestigious entry into our Board and we are very honored that he has accepted the role.

Moderator: The next question is from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: Congratulations on the good set of numbers. I wanted to understand that, if we see the paper prices, which is our raw material was very high this year and some part of last year also so paper prices were on an increasing trend maybe our own material cost as a percentage of sales was around 61%. So, if we consider the previous years when paper prices were not that high, we also had the material cost of 52%, 58%. So, I just wanted to understand that going forward, when the prices are down now, can we expect the gross margins to improve going forward and hence resulting in increasing EBITDA margin?

Saket Kanoria: The paper prices have started correcting since January, I would say, and it is continuing to correct. But once the paper price corrects, we also have to pass that through to customers. So, I do not see that the margin will expand from here, the margin is already quite healthy and we are also in a competitive world and overall demand is fairly soft. So, to expand margin does not seem likely to us.

Moderator: The next question is from the line of Jeetu Punjabi from EM Capital Advisors.

Jeetu Panjabi: Congratulations and great numbers. I just wanted to get a sense of what are you seeing from a demand side? Are you seeing the pipeline is still very strong and things will continue to grow or do you expect some sort of a slowdown?

Saket Kanoria: It has been very surprising that the demand side is not very strong at all. Last couple of months it has been quite slow and if you look at the results of our customers, you can see that their volume growth is low single digit, however, the value growth is 10% to 15%, typically because last year was a year of high inflation so the consumer budget has stretched. And now that the inflationary pressures are easing off hopefully volume growth should come back in a better way. There is no reason really for it not to come back. But in this last 2-3 months I would say that the demand has not been strong at all. And also, a lot of our customers export their products and in general also export because the Western world is also under tremendous inflation threat. So therefore overall, I would say the world as a whole, the demand is under stress right now.

Jeetu Panjabi: Right. And that your near future would obviously mirror that as well is what you are saying?

Saket Kanoria: I am saying that, yes, overall, there is a stress in the demand, the economy is not as buoyant as we would like it to be.

Jeetu Panjabi: And two, is there any new initiatives or new product categories or anything else that would provide another leg of growth, not necessarily next quarter but over the next year or two and then new things happening that you are focusing on?

Saket Kanoria: Yes, we are studying a couple of synergistic areas where we are not there today, but it is too early to talk about it. But we are studying what the potential is because we believe that we should exploit whatever synergy potential there is in the packaging space.

Jeetu Panjabi: And if I heard you in your previous question, you essentially said that margins would remain stable despite paper prices coming off because you pass that on. Is that a fair understanding that I got on this?

Saket Kanoria: No, it was response to the lady's question whether it will increase so I said that I do not see in this demand scenario margin to increase but obviously, we hope that we can maintain what we have been doing for quite some time now. We had a growth in margin last year and that is our endeavor.

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

Pavan Kumar: Sir, can you please comment on the domestic demand side in the sense that it doesn't seem to have been very strong for this particular quarter but do we see the demand coming back going forward or at least do we expect ourselves to maintain the current demand rate going forward in for FY24 or even that would be difficult to sustain?

Saket Kanoria: I just answered this question to Mr. Punjabi that the demand is a little weak right now. I said that with the inflation easing off, there is no reason why the demand should not get stronger. There is nothing beyond that I can say.

Pavan Kumar: And can you please comment on the utilization levels on the flexible line and the paper board separately?

Saket Kanoria: If we were to see the Q4, I would say that the capacity utilization is roughly 75% both in paper board and in flexible.

Pavan Kumar: Without any further capex. Is it a fair understanding that they can hit maybe Rs. 1,800 crore or Rs. 2,000 crore of revenues from the existing facilities?

Saket Kanoria: No, it is not practical to do that much without further capex.

Pavan Kumar: What would be our peak revenues from the current capacity if you had to guide?

Saket Kanoria: I think we could do up another 10% to 12% from what we achieved in Q4.

Moderator: The next question is from the line of Jayesh Shroff from Cask Capital.

Jayesh Shroff: Congratulations on a good set of numbers. I just wanted to know what is the status on our Innofilms line both in terms of our utilization and customer acceptance for the product?

Saket Kanoria: So, essentially the line has some technical issues which is still fully not sorted out. We hope it will be sorted in the next 3-4 months, so in the meantime it is merely operating for our own internal use. In the second half of the year, it should be at a proper operational levels.

Jayesh Shroff: But in terms of customer acceptance of the product, is it independent of our line?

Saket Kanoria: Customer acceptance is an ongoing effort. It is happening slowly because of the sustainable packaging, a lot of shelf-life study and adjustments to their filling line, etc., is required. So, I would say that overall, there's great interest in this product. There is also a great export opportunity so we are still very positive about it.

Moderator: The next question is from the line of Amit Kumar from Determine Investments.

Amit Kumar: Just one question, could you just tell us what is your capex plan for FY24 and if you can just break it down across the different lines you mentioned earlier in the call please.

Saket Kanoria: Broadly, our capex plan is just above Rs. 100 crore for this FY24 and essentially we are adding three production lines. One is at Silvassa, which has just started. Then there is another line being installed in Haridwar. And then we are putting a third flexible packaging line in Silvassa. And along with these there are post-printing equipment as well and also some old machines are being removed. So overall, it is a kind of an expansion and a modernization so it is a fairly large increase in new capacity.

Amit Kumar: And so just a little bit curious on the offset side. So, this line that you have already put out, the capex for this would have been largely already done in FY23, right? So, there will not be too much coming?

Saket Kanoria: It has been booked in April-May because the machine has gone into commercial production only now.

Amit Kumar: It would already be present as CWIP in our FY23 balance sheet?

Saket Kanoria: Yes, it was like a capital work-in-progress.

Amit Kumar: This Rs. 100 crore number that you are talking about; this is a cash number. I am interested in the cash number for FY24 really, what will be the cash spend still about Rs. 100-odd crore?

Saket Kanoria: Yes, Rs. 100-odd crore because we will again have some capital work-in-progress end of the year and plus we are buying balancing equipment as well in all the plants. We are also adding solar power capacity. So, you can say that will be about Rs. 100 crore.

Amit Kumar: Just on the offset side, what prompted you to add another line because I was just going through your 3rd Quarter Call, you had talked about this offset line which you have just launched, but there was no plan to actually have another offset line as well and as you mentioned earlier in the call that the market sort of looks a little bit on the softer side. So about 75% cash utilization is not very high and given the fact that you just added a new line, you have plenty of capacity. So, any reason for planning another offset capacity so early in the year?

Saket Kanoria: The reason why we have decided to add a line is essentially to be far more flexible and agile because the customers are now launching many-many brands. The average run length is reducing and hence if you are at a very high level of capacity utilization, your lead time to service such customers increases and for which they are not willing to give you that time. By having some slack and some additional capacity, then your service level improved quite considerably so one of the factors is that. And of course, also the old machines are getting old and secondly, obviously we want to be ready when the growth numbers pick up because then once we order machine at that point, we may get too late in the day because it takes 6, 7, 8 months before you can actually commercialize it.

Moderator: The next question is from the line of Nirav Savai from Abakkus AMC.

Nirav Savai: My question is mainly on the export side. What is the outlook on the export business for FY24 and what was the contribution of exports for FY23?

Saket Kanoria: Export has been one very big silver lining as far as we are concerned over the years, it is about 25% of our revenue. And the outlook for the current year, it is too early to say, but generally the Western world is under a little stress because of demand softening there, in the US and Europe. However, we have a lot of markets to explore so we do feel that the growth in export should continue and the outlook looks positive. And also, countries are looking at India in a bigger way to outsource from so that also is helping us and the currency is also helping us as of now. So overall, I would say that the export potential and what we have realized has been quite a good thing.

Nirav Savai: What was the growth in exports as I were to say for FY23 to FY22, was it more than the Company's actual growth?

Saket Kanoria: Yes, the export growth was higher than the Company's growth.

Nirav Savai: Do we expect this to continue for the next year as well?

Saket Kanoria: This level of growth was also fueled a little bit by inflation, so I do not think such high levels of growth is practical to continue.

Nirav Savai: I am saying in terms of volume. Basically, if we look at the volume growth.

Saket Kanoria: So, we expect the volume growth, which is our endeavor to keep it up.

Nirav Savai: A double-digit kind of a volume on export is something which you see is sustainable?

Saket Kanoria: Yes.

Nirav Savai: Any ballpark number where you see this Company in next 3-4 years? Now we have been steadily expanding every year, one line in each of the plants as and when we feel that we reach a certain level of utilization. But for the next 3-4 years or 5 years, any kind of size of the Company which we aspire, which we would like to reach in next three to four years at the Group level both in the flexible packaging as well as folding carton business?

Saket Kanoria: Our past performance indicates the 17% to 18% average growth annualized. We will be quite happy if we can achieve that.

Nirav Savai: So, roughly about Rs. 2,000-odd crore of top line in next five more years?

Saket Kanoria: Not five years, much quicker than that.

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

Pulkit Singhal: Congrats and a good set of numbers and getting an expert on the Board. The first question is on the growth vectors, obviously exports has been touched upon but we also had two other growth vectors which were market share gains in the domestic carton industry and the second is the flexible packaging line. So, if you can touch upon the growth prospects from flexible packaging and also do you expect the market share gains to continue at a similar rate? Have you invested in marketing to such an extent that you can continue at that pace or do you think that will also slow down with a little bit of demand slug?

Saket Kanoria: Thank you Pulkit, it is nice to hear from you again. And secondly, I am not clear about what your question really is but I understand that you are asking whether our marketing team or budget is expanding? So, the answer is yes, we are constantly adding new frontline marketing people and that is greatly helping us to reach out to more customers across India. People are also traveling a lot more these days. So yes, that is a very key component of the domestic marketing effort and the same holds for export as well. I am not sure about the other part of your question.

Pulkit Singhal: I was talking about flexible growth and flexible line. Can that growth vector continue at a similar pace that we have seen before, is it continuing at a fast pace?

Saket Kanoria: Yes if you recollect we expanded the capacity in the flexibles last year. It started in March-April of 2022 and the performance has been extremely pleasing. We have been able to get lots of new customers on board and have grown the business and therefore, we are now putting a third line which should start in the second half of this year and so then effectively we would have trebled the capacity and we are very confident that we should be able to fill that up fairly quickly.

Pulkit Singhal: And actually, where I was coming from is that the domestic FMCG industry has had slower growth for the last two quarters itself but you have managed to report a very healthy growth driven by these aspects like exports, flexible and market share gains in the domestic line. Now I am just wondering whether going ahead, even if the domestic industry were to continue to be lackluster, can we offset that by these vectors and now this year we will also have the rigid packaging also contributing? Do you think we can still on the net basis do a good double-digit growth or do you think will be a bit of a stretch given the industry?

Saket Kanoria: If the domestic demand does not grow or if it stays at a very low growth, then obviously to maintain a high growth is not possible at all. However, we believe that we can afford to invest in lines and be ready and we are making a lot of effort to expand our overall footfall both domestic and export. So, we do not have any issue with the lower capacity utilization for a quarter or two. But we see that India is poised for its economy to grow quite well and last year because of inflation the household budget was very constrained, but if the inflation is now under check, then volume growth is bound to come back. In any case, it is always 3%, 4%, 5%, so it is not that it is in any negative territory. And hence I think for us to expect a double-digit volume growth is quite possible to continue because we did that even last year. So, we do not see any reason why we cannot do it this year.

Pulkit Singhal: Fair point. Secondly, just on the capacity versus March end and what you are planning post this capex Rs. 100 crore, how much would the domestic carton capacity go up by and I am including what you added in April. On a volume basis, how much tonnage increase would be there for carton and how much will be for the flexible?

Saket Kanoria: Let us say one line typically be of 9,000 tons a year so two lines would be 18,000 tons. But I would say that because the volumes per brand are reducing and hence the total output goes down to some extent. I would say instead of 18,000 tons we could push for like 14,000 tons 15,000 tons effective capacity.

Pulkit Singhal: On a base of?

Saket Kanoria: We have now 100,000 tons roughly.

Pulkit Singhal: And then for flexible that would be almost 33% increase in this year.

Saket Kanoria: Flexible would be about 6000 tonne increase roughly.

Pulkit Singhal: On the base of 12,000 tons?

Saket Kanoria: On a base of about 10,000 tons.

Moderator: The next question is from the line of Vivek Agarwal, an Individual Investor.

Vivek Agarwal: On the FY23 numbers, if I remove the effect of Creative offset then roughly we have grown by 30% on topline basis. So how much would the volume growth be in this roughly because when we have sited slow growth and see we have grown the top-line by 30%, what would be the effect of value growth and how much will be the volume growth?

Saket Kanoria: We do not really flesh out these numbers to a very fine detail but I would say that the volume growth overall, out of that 30% would be 12% I would say.

Vivek Agarwal: Is that volume?

Saket Kanoria: Yes.

Vivek Agarwal: And Sir, you told that Q4 top line can grow by 10% at the existing capex level so if I annualize that it is around Rs. 16,50 crore of top line. Is that what we think we can achieve without further capex and this 15,000 tons of carton and 6000 tons of flexible packaging that is going to come on stream in FY24 is over and above that?

Saket Kanoria: No, we have we have given guidance of a double-digit growth in the current year.

Vivek Agarwal: I am not talking about current; I am talking about going forward.

Saket Kanoria: Capex is an ongoing part so our endeavors to grow in that range yearly.

Vivek Agarwal: On the debt front sir now that we are throwing healthy cash accruals, directionally the debt would be constant and with a negative bias going forward three to five years with Rs. 100 crore capex?

Saket Kanoria: If you look at our total debt in terms of ratios, it has improved considerably. So overall it is fairly healthy situation which we hope to continue.

Vivek Agarwal: Ideally we would be needing fresh debts to grow from here because your OCF is now Rs. 250 crore.

Saket Kanoria: But then we will grow faster if we can do that.

Vivek Agarwal: We really hope for that.

Moderator: 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. I hope I have been able to justify and answer all your questions. Should you need any further clarifications or if 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 continued basis as we move ahead. On behalf of all of us here at TCPL, I thank you for taking the time to join us on this call and I look forward to interacting with you all again soon. 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.