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24.08.2021

The Bombay Stock Exchange Ltd
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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 16.08.2021 intimating schedule of conference call to be held on Friday, 20.08.2021 at 3.00 p.m. (IST), in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In the said connection please find attached the transcript of Investors Conference Call. The transcript of the conference call is also been posted on the Company's website at www.tcpl.in.

Kindly take the same on record and acknowledge the receipt.

Thanking You

For **TCPL Packaging Limited**

Compliance Officer

Encl. As above



TCPL Packaging Limited

Q1 FY22 Earnings Conference Call Transcript

August 20, 2021

Moderator: Ladies and gentlemen, good day and welcome to the TCPL Packaging Limited's earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on TCPL Packaging's Q1 FY22 earnings conference call. We have with us today Mr. Saket Kanoria – Managing Director, Mr. Akshay Kanoria – Executive Director and Mr. Vivek Dave – GM Finance of the Company.

We would like to begin the call with brief opening remarks from the management following which we will have the forum open for an interactive question and answer session.

Before we start, I would like to point out that some statements made in today's call maybe 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 first quarter ended 30th June 2021. I hope in these challenging times all of you and your families are keeping safe and are in good health.

I will be covering the business highlights and financial performance for the quarter, post which we will be happy to take your questions and suggestions.

As some of you may know, TCPL is one of India's leading producers of sustainable packaging solutions for customers across industries. With a 15-year net sales CAGR in excess of 17%, we have consistently outperformed our underlying industries on the back of our strategic approach to growth through diversification. Today, TCPL is one of India's largest Folding Carton manufacturers and converters of paperboard. This core segment contributes to approximately 85% of our revenues and the balance comprises of the Flexible Packaging Division. While we are the smaller player in this relatively new segment, we believe, among our marquee large customers, we have successfully positioned ourselves as a highly innovative player providing versatile and sustainable solution. Over the years, we have actively expanded and diversified our operations to service a wide range of packaging

products while consistently adding new clients and growing our share of business in existing customers and markets.

I would also like to point out an interesting fact that came to our attention recently, that out of the ~6,000 listed companies on the Indian stock exchanges, there are only 105 companies that have managed to grow each year for the past 10 years. I'm proud to say that TCPL is one of these 105 companies on the list, but not only are we on this list for 10 years, but in fact, we have been growing each year for almost our entire history of the Company, which is in excess of 30 years. I wonder if they made a list of companies which have grown each year for 30 years, I would think that there would be a very small number.

Coming to our Quarter 1 performance, we started the fiscal on a steady note, despite the second wave of the COVID pandemic impacting demand in the first quarter. Total revenues expanded by 33% to 226 crore. Of course, the increased growth rate year-on-year basis was primarily owing to last year's low base. With the last year's learning, we had all the necessary protocols in place that allowed us to maintain productivity at all our facilities while adhering to all the regulations and safety standards.

During the quarter, we witnessed notable raw material inflation that impacted our gross margin. However, operating leverage and better cost management enabled us to report a higher EBITDA of Rs. 30 crore which was up 29% from the same period last year. This translated into a margin of 13.4%. We are taking adequate price hikes to cover inflation and anticipate our margins to revert to normal level in the upcoming quarters. Our profit before tax grew to Rs. 9.5 crore and our cash profit were strong at Rs. 23 crore during the quarter.

On the operational front, we are making healthy progress in establishing our second flexible packaging lines at Silvassa that will more than double our existing capacity. Furthermore, TCPL Innofilms Private Limited, a wholly owned subsidiary of TCPL, is setting up a state-of-the-art innovative PE that is Polyethylene blown film line, which is being imported from Germany. This film is based on the Machine-Direction Orientation technology, which will not only be environmentally friendly but will also produce recyclable packaging. At present most flexible packaging is made of multiple polymers rendering it non-recyclable. However, TCPL aims to use single polymer while still satisfying all barrier and functional requirements, aiding in the transition to recyclable packaging. Given the growing trend towards sustainable and recyclable solution, we anticipate this product will garner healthy traction going forward. Both facilities will be commissioned this fiscal. So, normalization in demand combined with these expansion plans should provide a notable impetus to our growth from next year onwards.

To conclude we have delivered a resilient and consistent performance in an unpredictable environment. Going forward on account of our technological advancements in the packaging solutions industry, we believe that organized large players like us, are well positioned to tap the growing demand for sustainable packaging solutions from brands across various industries, including FMCG and Food & Beverage.

As our results documents were shared with you earlier, I hope you had an opportunity to glance through the financial numbers. I will now request the moderator to open 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 Faisal Hawa from H. G. Hawa & Co.

Faisal Hawa: The sustainability issues, especially in packaging are coming into a lot of scrutiny and we are in a very good position in the event that we supply to most MNCs, and large Indian incorporates, and we may be asked to now shift towards packaging towards sustainability and to really be more environment friendly. Are we in a position to really pivot and do research development, really engage with our customers, and even collaborate with them to change materials or to even change, in many cases our machineries to cater to this demand, that is one? And secondly in view lot of M&A activities and private equity and venture capital activities taking place in the unlisted space, particularly with Parkson which is a similar company to yours. How are we looking to enhance our shareholder value, because our shares remain a very illiquid stock and very few mutual funds are also present? So, can you give some view on how to enhance shareholder value?

Saket Kanoria: Thank you. This sustainability is a very big word. We like to focus more on recyclability and packaging is all about recyclability and sustainability is a subset of that. I just explained that we are getting into this new technology wherein we can make recyclable, flexible packaging, but a large part of our business is paperboard - based, which is any way the most sustainable material that you can get. I think we are very well positioned from this aspect, and we have in fact taken significant advanced steps towards maintaining leadership in this area. As you rightly said, this is certainly going to be a thrust in focus for most customers, going forward. As far as the private equity, active investments in some unlisted companies that will always keep taking place. I don't think that that is an essential ingredient for us to enhance shareholder value. Your question is a bit contrary. As I was talking about the private equity investments in this space, and we don't see how that enhances shareholder value by inviting them into our company. Shareholder value, really will, I think play out as we consistently perform, consistently grow, and have a higher return on equity and on investment. And the liquidity of the stock obviously really depends on how much interest there is in the market and how many people recognize the performance of the company.

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

Vipul Shah: My question is basically, in the last two quarters we've seen our gross margins have been, under pressure. I mean, I don't recollect in the last, 12 quarters our gross margins going down below 40%, so is this commodity inflation, I believe you mentioned that you've taken, price hikes, but is this commodity inflation now sustained in our gross margins or you think the company will be able to deliver the gross margins which we have been delivering historically?

Saket Kanoria: We believe that we should come back to a historical margin, post COVID period has seen tremendous volatility in raw materials and particularly in the last 6-8 months, there has been a lot of international freight costs which have gone totally out of control and obviously it is passing on. Such volatile input cost take some time and when you pass on one element and another one goes up, so there's been this constant pressure, but I think that, we should see an improvement in gross margin going forward.

Moderator: The next question is on the line of Nitesh Jain from Aditya Birla Mutual Funds.

Nitesh Jain: Basically, I want to ask you about, TCPL Innofilm which is relatively a new line of business we see the company is going into, 100% sub-co, if you can elaborate, when you commission this, what is the pre-marketing strategy? Has there been a good enquiry, or do you have the orders? This is relevant in the sense, how quickly we can ramp up this plant? This is the question number one and number two, how big

is the opportunity for this innovative single polymer flexible packaging? Can this kind of product cannibalize the existing flexible packaging where there is a mix and match of metal and the polymers, and which can be recycled? How has been the initial dialogue with some of your customers about it? If you can talk about this opportunistic landscape for TCPL Innofilm, it would be really helpful?

Saket Kanoria:

Yes. Thank you. So, as we speak, we have imported a couple of containers of this film, and we are doing tests at various customers for various different product applications. So far we get a very encouraging feedback and response. The product seems to work well on packing lines etc. but it's still early days because, a well-established product if you want to change the structure of the packaging, customers have to, subject it to extended shelf life and a lot of testing for both barrier and functional requirements. It's a journey and we have started that well in time so that before our machine comes, if we can get three, four approvals, then at least we have some commercial application to go with. Over a period of time, we can ramp up its usage. But if in the meantime, obviously the equipment is capable of making regular PE film, so it is not that the equipment will be idle. We have also received a lot of export inquiries for this. We are quite confident that ramp up will happen fairly quickly, but the value added MDO ramp up may take, up to a year to completely fully utilize it. As far as the opportunity is concerned, we really believe that there's a huge opportunity because, the recyclability is the name of the game. And the government so far regulation is not talking about single polymer film being a mandate. They have just introduced that you may have read a ban on single use plastic items completely by next year. They've given the industry time to fit in for about 8, 9 months. We expect that even for the flexible packaging, similar sort of guidelines which mandate recyclable packaging in time to come. And, once that happens, then the opportunity becomes massive. Just for you to know, we are setting up a plant capacity 4.5 thousand tonne a year and the polyester film business which goes into thin film application, the kind of film that we are talking about is roughly 500,000 tonne a year. Now, I'm not saying that the entire 500,000 can be converted to this. Certain functional requirements will always require polyester. Certain aesthetic requirements could require polyester, but a big opportunity is there because one line of ours is 100th of the polyester market. There is, very big headroom, for growth and obviously companies which are first-mover and those who have already done the hard work will get that opportunity earlier and quicker than other companies, because already we are making a name and most companies amongst our customer target is aware that we are in the midst of setting up this equipment and technology. So, there's a big opportunity.

Akshay Kanoria:

If I can come in here, see we are already present in most major brand owners in the carton space and obviously in flexible packaging, we are a lot smaller player. But given that we already have the introduction in carton and now these players have a very strong reason to look at us. We feel that we are well positioned, first point. Second point is most of these large MNCs that you would have heard of the household names. They have commitments to their shareholders and to their governments where their companies are incorporated, to move most of their packaging to recyclable packaging in the next four to five years. So, there's a massive opportunity there. And, last point, which I'd like to apprise you'll of, is recently in Europe, there's been a lot of action on this recyclability of packaging. Today, there is a massive tax of 20 to 30% of the value of the product of the flexible packaging in Europe, if your packaging is non-recyclable. So, you can even offer a packaging that's 20% more in price and the customer would have no choice in Europe, but to go for it because there's other alternative is to pay it this hefty tax. We find that even if we start we can fill up a line probably with exports, but it may take some time. But there is a huge opportunity. And ultimately all this will come in India as well. So, I think that should give you enough of an idea.

Nitesh Jain: A related question here is that, then should we believe that, suppose, by the end of this year or middle of next year when you have the product approval and product commercially getting supplied to some of these MNC companies, let's believe now that it gets well accepted, so from a longer-term strategy will the capacity ramp up on this site? And while the folding carton business can continue to grow at say 12% to 14%, I mean the topline growth of some of the FMCG companies or the pharma companies and the delta growth, higher growth can come from this line of business. Is this the plan there in your mind?

Saket Kanoria: Yes, absolutely. This is like on top of our normal growth rate if you see our growth over the past so many years has been in high double digit. The packaging let's say folding carton itself, there's an opportunity to keep a double-digit growth going and this is on top of that. So, this will accelerate our growth significantly. And as far as ramping up this capacity is concerned; it really depends on how quickly we can penetrate and substitute the other alternative and we will certainly not leave any stone unturned but to capture the potential once it gets adopted.

Moderator: The next question is from the line of Pawan Kumar from Ratna Traya Capital.

Pawan Kumar: If I look at your numbers, broadly we have done around Rs.220 crore of CAPEX in last three years. So, how much of this particular CAPEX has been in the flexible lines? And number two, of the CAPEX that we have done in the flexible lines, is it fungible with the recyclable competent that you are talking about or some of it is the normal flexible packaging and some of it is recyclable? How does it work?

Saket Kanoria: So last three years we have not done any significant CAPEX in flexible lines. This year we are doing. Last three years, we have mainly invested only in carton, and the investments we are doing now in the flexible line also allows it to do recyclable. So, that is the main thrust of this CAPEX.

Akshay Kanoria: Just to clarify a little bit, basically this Innofilms we will be manufacturing the film, which will be this recyclable film, and then the flexible packaging division will be converting that film into finish laminates. So, the idea is that we have a separate entity making the film and within TCPL itself, taking that film and then converting it into finished product. So, the investment in Innofilms is obviously 100% for this only, and then the regular TCPL packaging, flexible capacity addition we will convert this film, or we can convert any other film or substrate. But obviously the point is that we should utilize in-house, ideally.

Pawan Kumar: What is the CAPEX on Innofilms and the packaging line?

Saket Kanoria: Innofilm, we are making a budget of Rs.35 crore. And the total CAPEX for the year including that is about Rs. 100 crore.

Pawan Kumar: When we look at the asset turn on top of this Rs.100 crore CAPEX, we should be looking at only at the Rs. 65 crore which is not there in Innofilms, right?

Saket Kanoria: Yes. That's right. You are absolutely right.

Pawan Kumar: Can it deliver two times asset turnover, or will it be higher?

Saket Kanoria: If you see historically our asset turn is about 1.5x because we are never fully utilized. We have some equipment or the other under commissioning or recently commissioned. But standalone once you are invested and you run at high level of utilization then the asset turn can be 2x.

Akshay Kanoria: So, in flexible packaging usually your asset turn is more like 2x and then folding carton usually it's more like 1.5x to 2x depending on how many lines you have. But basically, in folding carton usually you have a little bit lower asset turn, but a higher gross margin and in flexible packaging it is the other way around, but both could give you a ROCE of 20%. That's usually our target. Or blended average we look at like 1.5x to 2x and then a ROCE of +20%.

Pawan Kumar: And when we are talking about ROCE of 20% this would be pre-tax, right?

Saket Kanoria: Yes.

Akshay Kanoria: What we are essentially saying is for our business when we would be operating at full capacity, we can generate in pre-tax ROCE of 20%.

Saket Kanoria: No, if we are running at full capacity, we will get a post-tax ROCE of 20%. But the point is that this is a moving target.

Akshay Kanoria: Or we can utilize fully in one location, then we are doing CAPEX in another location or in one business and we are doing CAPEX in other business. So, that wheel keeps turning. But ultimately that asset has to do that kind of a return in our calculation.

Pawan Kumar: And one final question, if I look at your last 3 year then we have done around Rs. 224 crore of CAPEX, but our incremental revenues that have come into the system are maybe in the range of say Rs. 200 crore. So, should we assume there is an unutilized capacity of around Rs. 200 crore lying in the system?

Saket Kanoria: Out of the last three years, one-and-half years we suffered COVID. So, this is a major factor which has not allowed us to achieve our potential. And certainly, we can do without any further CAPEX if we sweat the asset, we can do more than Rs. 200 crore of revenue on existing capacity.

Pawan Kumar: Post this addition of this film line, our revenue potential at full capacity can go to Rs. 1300- Rs.1400 crore? Would that be the right understanding?

Saket Kanoria: Yes. At high level of utilization.

Moderator: The next question is from the line of Nilanjana Roy from Ventura Securities.

Nilanjana Roy: I wanted to know why your EBITDA margins are a little lower this quarter? And if I can get a breakup of flexible packaging and folding carton contribution to revenue for the quarter.

Saket Kanoria: As we mentioned earlier that there has been a very strong raw material inflation in this last two quarters and that is why the EBITDA margin is lower than the normal run rate, and also the utilization has been lower which resulted in overhead costs being slightly higher. About 85% of the revenue is contributed by the carton. The rest is flexibles.

Nilanjana Roy: So, are the margins for flexible packaging a little lower than folding carton?

Akshay Kanoria: As I explained in previous discussion, the flexible packaging tends to have a lower margin but a higher asset-turn therefore your return on your capital tends to be similar between the two.

Moderator: The next question is a follow-up from the line of from Faisal Hawa from H. G. Hawa & Co.

Faisal Hawa: You mentioned that for this flexible packaging films project, the multi-layer one, we will have to import most of the films. So, are there no local manufacturers who will make these specialty films so that our risk is lesser?

Saket Kanoria: This is for trial purpose. Because our machinery is under installation. So, in order to save time.

Faisal Hawa: You are trading in it at this point of time.

Akshay Kanoria: Basically, we are one of the first lines of this kind in the world. And just to get a head start we have started trials using a similar product, and once our line comes up, it will be 100% in house.

Faisal Hawa: So, there will be several manufacturers who would supply in India itself?

Akshay Kanoria: No, not several. There's only I think three.

Saket Kanoria: There's another one under installation and there is one which is operational, then there is us. that's it.

Faisal Hawa: What would be the contribution of our top five clients in our revenue?

Akshay Kanoria: We don't disclose our split, but what we can say is that there's only maybe one customer who is more than 10% of our total business. So, we are fairly well diversified in terms of clientele.

Moderator: The next question is from the line of Rahul Sony from SMIFS Limited.

Rahul Sony: My question is related to the contract which you enter with your clients for your mono cartons business. So, these contracts are formed for a quarter 6 year or on a long-term basis. And how is raw material price hike passing on arrangement within these contracts?

Akshay Kanoria: It depends on customer to customer. Some customers we have an agreed model, where there's an immediate pass-on of the RM prices, with some customer it is monthly, with some it's quarterly, with some it is based on RFQ or auction. So, it depends customer to customer based on that customer's individual preference and dynamics. But usually on an average it takes about three months or so to pass on RM price increases. If you see in the past also whenever there's been a hike in RM pricing, that quarter the result gets hit, and then in subsequent quarters, it normalizes. This time, obviously it's been a totally abnormal sort of situation where the kind of price increases have been much-much steeper than any time in living memory. And the pressure is sustained even right now. It has taken one quarter or so to pass on the increase.

Rahul Sony: And this supply contracts are made for a three-month period, six month or on a yearly basis? How often are they renewed?

Akshay Kanoria: So usually, they set a share of business once they define the pricing for particular products, and then that's more or less consistent until the next change. It depends on customer to customer, but it's not like we have a one month, two months, three months kind of clarity. We have a clarity over a longer time period, and we have very

long-term relations with most of our customers where we are working for 10-15-20 years. So, we have fair amount of clarity of the kind of volume and value we can expect from individual customers.

Rahul Sony: And my second question is related to the raw material price. What is the percentage increase in your raw material price and what kind of price hike you have taken?

Akshay Kanoria: In our carton business the major raw material is paper board. So, we will just talk about that for ease. So, paper board, there's two types of boards, there's recycled and there's virgin board. The recycled fiber is essentially governed by scrap and import of containers. So, most of our paper mills, the suppliers, they are importing their raw material from abroad. And those rates have gone up dramatically in the last six months leading to recycle board prices increasing by over 30% in the last six months. So, that's for recycled board. And in virgin board the increase has been between 10%-15% driven by virgin pulp price increases as well as other costs going up. Like, for example, all the paper mills use a lot of coal for energy, that price has apparently gone up in high double digits. Then we use a lot of other raw materials, consumables, then things like plastic films. Those have also gone up in the double digits. So, I would say there's not one element of cost that hasn't gone up in double digits, pretty much everything in the market is up and you can see that anecdotally also, this is the case for every company in the world. So, more or less we have passed on whatever increase has come to us.

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

Pawan Kumar: Regarding the potential trials that you are doing, on the cost angle, how much higher than the traditional flexible packaging film will we have to price our newer film?

Saket Kanoria: On this new recyclable film there is no yardstick that on cost what will be the delta. It will depend on the product. So, when you have a very thicker laminate, it's possible in fact, to have a lower cost and if it is a very thin laminate, it could be that the cost will be higher. So, it really depends on the functional and the barrier properties required. However, the delta could be from -5% to +10%, something like that.

Pawan Kumar: Delta you are saying this...?

Saket Kanoria: Delta means the change, the difference.

Akshay Kanoria: So, if the guy is saying Rs. 100 today he may be paying Rs. 95 tomorrow for this kind of product, he could be paying Rs. 110 also. It depends on the product and the kind of barrier and functional requirements that they have. So, what we are doing, our strategy is to work on many different types of products with different customers. Like, let's say we will work with one guy for Atta, we will work with one guy for rice, we will work with one guy for shampoo and another guy for soap. And then we qualify with at least one major customer, one type of product. Once that is clear, and we have an idea that, okay, today you're paying Rs. 100 with my product, you will be paying Rs. 102, or you will be paying Rs. 95, then we go to everyone in the market doing that kind of product, and we can sell that. So that's our strategy. So, ideally we would want to corner the entire market obviously, but we have to choose the low hanging fruit first.

Pawan Kumar: And then subsidiary in the tonnage terms what is the kind of capacity you are putting in?

Saket Kanoria: 4,500 tonnes.

Moderator: Thank you. That was the last question for today. I would now like to hand the conference back to the management team for closing comments.

Saket Kanoria: Thank you everyone. I hope we have been able to answer and satisfy all your questions. Should you need any further clarifications or if you would like to know more about the Company, do feel free to contact our investor relations team at CDR India. We hope to have your valuable support on a continuous basis as we move ahead. On behalf of the management, I once again thank you for taking time to join us on this call. We 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 of such errors, although an effort has been made to ensure high level of accuracy.