TCPL packaging limited

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17.11.2022

The Bombay Stock Exchange Ltd
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001
Security Code:-523301

The National Stock Exchange of India Ltd
Exchange Plaza, Plot No. C/1, G Block
Bandra Kurla Complex,
Bandra East, Mumbai 400 051
Trading Symbol:- TCPLPACK

Dear Sir(s),

Re:- Transcript of the Q2 & H1 FY23 Earnings Conference Call

With reference to the aforesaid subject, annexed is transcript of conference call held on 14.11.2022, with the Investors and Analysts.

The transcript of the conference call has 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**

SOHAN GAMANLAL NANAVATI

Digitally signed by SOHAN GAMANLAL NANAVATI
Date: 2022.11.17 11:07:12 +05'30'

Compliance Officer

TCPL Packaging Limited

Q2 & H1 FY23 Earnings Conference Call Transcript
November 14, 2022

Moderator: Ladies and gentleman, 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, madam.

Jenny Rose: Good morning, everyone and thank you for joining us on TCPL Packaging's Q2 and H1 FY23 Earnings Conference Call. We have with us today, Mr. Saket Kanoria, Managing Director; Mr. Akshay Kanoria, Executive Director; Mr. Vidur Kanoria, Associate 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 may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

I now like to invite Mr. Akshay Kanoria to make his opening remarks. Thank you, and over to you, sir

Akshay Kanoria: Good morning everyone, and thank you all for joining us on our earnings call for the period ended September 30th, 2022. I trust all of you had the opportunity to go through our results documents 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 for Q&A.

I'm pleased to share that we have reported a strong operation and financial performance despite underlying industries witnessing headwinds during the quarter. In Q2 FY23, our consolidated revenues increased by 43% year-on-year to INR 361.7 crore. The performance was driven by both higher volumes and better realizations registered in the domestic and export markets. Additionally, we witnessed stability in our key raw materials which enabled us to record strong profitability during the quarter.

In Q2 EBITDA increased by 60% year-on-year to INR 57.5 crore, resulting in strong margins of 16%. PBT grew by 120% to INR 32.7 crore, while our PAT and cash profits grew to INR 39.5 crore and INR 65.8 crore respectively during the quarter. The PAT and cash profit include an exceptional one-off income of INR 17.3 crore. This pertains to an insurance claim for loss of fixed assets damaged by fire and loss of profit in the previous year.

As you may be aware, with the acquisition of COPPL, we have entered the high potential rigid box segment that serves multiple, fast growing end-user electronics industries. This acquisition is in line with our growth through diversification strategy, and strengthens our long-term growth prospects. Since the acquisition, we have been able to expand our product portfolio by onboarding a number of well-known brands in the electronics industry, including smartphones, smartwatches, headphones etc. In the coming quarters, it will be our endeavor to steadily increase our wallet share with them by leveraging our scale and institutional capabilities.

Coming to our Flexible Packaging segment, we are progressively ramping up utilization levels at the decently commissioned line at Silvasa. I am pleased to share that our team has done an excellent job and we are on track to achieve optimal volumes over the next few quarters. In addition, TCPL Innofilms, the Company's wholly owned subsidiary is witnessing healthy inquiries from global players for its single polymer based packaging film that is a truly recyclable and environmentally friendly product.

To conclude, while TCPL grows through customer and sector diversification, some of our key underlying industries are witnessing a muted demand environment. So, we remain cautiously optimistic about our near-term outlook. However, the longer-term trend for the packaging industry remains very buoyant. The industry is expected to witness huge growth as India continues to move towards self-reliance in manufacturing across various industries. Given our prudent investments in augmenting our capacities over the years, we believe that TCPL is well positioned to capitalize on this opportunity.

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

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

The first question is from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: Sir, congratulations for a good set of numbers. My first question is, Diageo said that it has phased out 183 million cardboard gift box packaging. Dabur few years back mentioned it will remove cardboard packaging from toothpaste as a pilot project and some articles, Amazon is also stating that some part, maybe they will phase out the cardboard packaging. So, what's your take on this and how do you see it panning out?

Akshay Kanoria: Thank you very much. So, we can't comment on specific companies. However, in general, there is an increase in the uptake for our products. Paperboard packaging is widely perceived and correctly perceived to be environment friendly. Now, certain customers and certain companies for certain products may from time to time change their product mix. However, we believe that the long-term potential for this segment is still very much positive. Globally, if you look at it, actually, the paperboard consumption and demand is growing and sustainability trends are actually driving a significant part of this growth. So, I hope that answers your question.

Gunjan Kabra: Sir, sustainability is not the issue, I think it is sustainable and the folding cartons that we manufacturer is also sustainable. That I understand. But the thing that they guide is, that they think it is an extra form of packaging, and which if we do away with it, it will save resources. So, it on that side of the business that they are targeting. It's not on the sustainability use or anything. So, if such big companies are guiding something, so I wanted to understand from you because how is the trend panning out?

Akshay Kanoria: If you look sector wise, in the FMCG, there's no trend in this respect. In fact, people are moving more towards paperboard packaging. And recently, there is some commentary from the liquor companies about wanting to move out because of this extra form of packaging and to save resources and money. However, what we find is that, the saving is not going to be very significant because ultimately the company will have to invest in augmenting the secondary packaging, the bottles, the labels, and those kinds of things. So, we're not really sure how much it will save them. So, with that in mind we're not unduly concerned I would say.

Saket Kanoria: And I would just like to step in here. The thing is that we can't call it yet a trend if one or two companies have expressed their sentiment and it's too early right now. That okay, there could be certain products, which we'll look at doing things like this. But ultimately packaging is an integral part of the product and we don't see this happening across the board. In fact, it's typically not possible to do it across the board. And as Akshay mentioned earlier, that a lot of other items which are plastic based, which are moving to paperboard based. So, overall consumption of paperboard in the world is growing very rapidly. And obviously, nobody likes the fact that this segment may out of it or partly out it. That remains to be seen how the actual trend may be.

Akshay Kanoria: And one more point I would like to add is that, if you look at India's per capita consumption of paperboard, now I don't have that number with me, but it is completely insignificant when you compared to global averages. So, one or two segments or one or two customers for few products moving out, it is more like a short-term thing but long-term, there's still enough scope for volume growth.

Gunjan Kabra: Okay. Got it. Sir, also can you bifurcate the current capacity in cartons, printing, and flexible packaging? Like if you can give the number of the current capacity?

Akshay Kanoria: So, as we guide in our presentation, etc., the Paperboard is the largest segment by far and is almost 90% of the total turnover of the Company, and the balance is Flexible Packaging. In Flexible Packaging, we of course greatly expanded our capacity in March, April this year and therefore the utilization has been on the lower side. Although, it is picking up now. So, I hope that answers the question.

Gunjan Kabra: Sir, revenue segment I understand I wanted to know in terms of volumes, I mean in terms of unit capacity, like how many tonnes we have in carton and how many tonnes we have in flexible packaging thing?

Akshay Kanoria: It's very difficult to give you a correct answer because the tonnage of Flexible Packaging is not the same thing as tonnage of Paperboard and values are extremely variable. So, if I tell you like 1000 tonnes here versus 100,000 tonnes there, it's not equivalent. So that's why we don't give this kind of numbers because it's very dependent on what product mix you're going to run. Yes, like what is your input raw materials and what is your output. That really increases or decreases the value per tonne.

Moderator: The next question is from the Sanjay Manyal from ICICI Direct.

Sanjay Manyal: Can you give some update about the newly acquired company. What exactly is the kind of sales we are looking in next one or two years in this segment? And you mentioned that you have sort of gained some clients over there. If you can name some of them and what kind of opportunity actually you're looking in this space over the period of time?

Akshay Kanoria: Yes. So, this is I guess you're referring to Creative Offset. This is a company based out of Noida, which we acquired in December last year. They are mostly concentrating on the electronics industry. We were attracted to this industry because of the kind of growth story we see coming in India this year and over the coming few years, buoyed by this China Plus One strategy, as well as the Indian government incentives and generally, India's rising competitiveness in the segment. So, we see a big opportunity for India here in terms of the export potential.

I'll talk generally first before coming to specific. If you see about 10 years back, India's exports of electronic items was amounting to about $4 billion. Today, that is between $10 billion and $20 billion. At the same time, Vietnam had a sale of $3.5 billion. Today that is in excess of $90 billion. And China exports over $800 billion of electronics items. So, the kind of opportunity for India in this electronics manufacturing and export for global markets, forget the India market is just vast. And then of course, there's the India market where primarily, most of these Indian brands that you would see advertising in your IPLs and on TV today, they're mostly importing their material directly from China and for the most part they've been historically just trading companies. They've been importing the finished product and selling in India.

Now thanks to all these taxes, government pressures, zero-COVID policy in China etc., all of them are steadily switching their manufacturing to India. So, this we see as a very big potential. And therefore, we acquired this company, because Noida and the NCR region in general is going to be one of the major hubs for manufacturing of such products. And therefore, in Creative Offset, we find a very good scope and we hope that in coming years we take it to triple digit revenue. Now, exactly when we get there, I can't sort of guide for that, but our target is to make this a very critical part of our overall growth in the coming years.

Sanjay Manyal: Sure, just one more thing on the margin front. What kind of margin this company commands versus our overall margin? And if I also add to it, over the last 10 years, the blended margins have been in a range of say 13% to 16% 17% odd. So, this current quarter margins look at a higher end of that range. So, are we sure and confident about this fact that we will be able to maintain this kind of margin or what exactly is your guidance on that?

Akshay Kanoria: Yes. So, as far as this company is concerned, currently, the margin is quite low because of the utilization or rather the sales revenue being low. As it picks up, we see this being a higher margin business than our existing business. And it certainly has the potential, but obviously, we have to get the top line up first. As far as the overall company is concerned, we have sort of operated in this range of about 14%, 15% EBITDA, I on a better year, we go up 2%, 3% and on a worst possible year, we go down 2%, 3%. So broadly, we are quite stable as a company in our margin structure, and we see ourselves continuing along that trend. And as long as the utilization levels stays decent, we manage our investment prudently, we don't see why we can't manage this sort of level of margins.

Sanjay Manyal: Sure. My last question is on basically on the working capital. If you can guide what exactly kind of working capital requirements we would require sort of at the end of the year and if you can guide something on that?

Akshay Kanoria: Yes. So, the last two years has seen significant volatility in terms of raw material pricing, as well as availability. This has led to increase in working capital requirements for the company in terms of the stock levels that we maintain. So generally speaking, we have about 60 days of working capital requirement as a company. And that's what we see sort of as a good level, a maintainable level.

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

Pulkit Singhal: Congrats on an excellent set of numbers. First question is just to understand the trend in exports. I understand that Europe is also facing certain kinds of challenges in manufacturing. And we have really big paper packaging companies out there. And so, is that something that is providing us an opportunity now to address because of these issues?

Akshay Kanoria: Thank you, Pulkit. Yes. Europe, there is a huge problem there thanks to the natural gas prices, the oil price, energy costs, everything is going up like crazy over there. So, there are two things happening at the same time. One is there's some amount of demand destruction, which is not good. Because obviously, people's energy bills are going up. So, consumption is taking a knock. However, from our perspective, one positive is, of course, that the local industry is under a lot of pressure. And to that extent, the rest of the world is more competitive relative to those companies. So, we see an opportunity actually and we will be sure to that capitalize.

Pulkit Singhal: Right. But this you think can be a pretty long-term trend? I was looking at this company, Graphic Packaging, which is there in U.S. and has billions of dollars of business. I am just wondering that we are no way there and even a small shift from one customer of theirs to us can still be very big progress. So, are there any such discussion for some kind of requirement from any of these people? Anyone you're engaging with closely?

Saket Kanoria: To add here on Graphic Packaging, in fact, we are the strategic partner and we know them very well. And obviously, if there's any possibility, we will be talking to them. But there's no such thing that right away but this energy crisis in Europe is very, very nascent, and obviously, this is going to be a major problem for the Europeans going forward. And they are all trying to realign their supply chain, but it's not so easy. So ultimately, there are people to be employed and all that. So, there's going to be a very big social upheaval, but it's a very new thing. So, we are yet to see how this will pan out. But certainly, Asia will benefit thanks to this situation.

Pulkit Singhal: Sorry, I didn’t know that they were strategic partners. In what way are we engaged with them?

Saket Kanoria: We are engaged just as a technology collaboration and to service global corporates.

Pulkit Singhal: Okay. So, the export trend, which we have been seeing last four, five years and has been growing at anywhere between 20% to 30% for our company, you believe that trend is here to stay and can even get stronger, or do you think that we've already reached some base and will just kind of start trending down.

Saket Kanoria: No, so far, the export is growing well. Currently, the domestic has outgrown exports but export trend is very positive.

Pulkit Singhal: Okay. And in Creative Offset, the commentary of ours has suddenly changed in just last three months, right and we are always positive on the potential but if I see consol minus standalone, we are probably already doing INR13 crore this quarter, which I assume is entirely COPPL and suggests a INR50 crore annual run rate. Is my understanding correct? Are we already at that level and things are picking up quite rapidly?

Akshay Kanoria: Pulkit, we don’t want to get into the specific number. I don't want to give you an answer to that question, but its improving and it will continue to improve. And there's a good potential. So short-term, there is lot of these supply issues and all thanks to earlier, that chip shortage and component shortage from China. General inflation has hurt the demand for electronic items. But there's a big shift happening. So, on one hand, there is that, but on the other hand, there's a good potential, and there's a good scope. So, we are quite positive and we've always been positive. I don't agree that there's a shift in the commentary.

Pulkit Singhal: Right. And utilization level? If you can give us some sense, how much is Flexible, Paper Packaging for the last quarter?

Akshay Kanoria: So, the Flexible Packaging has picked up. We are still far from 100%, but earlier obviously, we were still less than 50% because we had just doubled. So, its much better than that. But we still have some good scope for further growth. In the Paperboard packaging, we have been at a much higher level of utilization this last, I think, three quarters or so. And you can see that probably in the overall numbers. That continues to some extent but there is still again, further scope for growth here.

Pulkit Singhal: The opening commentary seem to mention some kinds of slowdown of growth. I am just trying to understand, I don't want to misinterpret it. But I mean, I'll be talking from a 40% 50% growth rate which we're seeing or are there some concerns which we should be aware of for the next few quarters?

Akshay Kanoria: I think as far as our run rate is concerned; we are quite comfortable in maintaining that. And generally, though the domestic markets, these last three years has been slow and these last four or five months particularly has been slow, if you see the results and the numbers are most of our customers, forget the top line number, but if you look at their volume numbers, they have been quite slow. And that's largely due to the inflation impact. So, we have to see how it pans out. Hopefully this will moderate in the coming months but there's really too many unknowns in the global economy, which are out of everyone's control. So, we'll see. But I don't think we have any problem maintaining our run rate for now.

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

Nirav Savai: Sir, question is regarding this Flexible Packaging business. Now, with BOPET prices and even BOPP prices have corrected. Do we see any improvement in margins in the segment?

Akshay Kanoria: So, basically, this business, we have a lag effect and we have a pass through mechanism with most of our customers. So, as the price goes up or as the price goes down, there's a pass through to the customer and pricing is quite well known to everyone, is quite transparent. So therefore, it's not like you get some very significant boost. But there is a short-term sort of positive impact that one experiences and of course, generally speaking, if the prices go down then that much pressure from the customer and it is going to reduce.

Nirav Savai: Got it. So, this would be only temporary you are saying?

Akshay Kanoria: Yes. Short term and short-lived sort of margin boost come, but, generally in a declining raw material price environment, it's always better because the pressure from your customers is less. So, it is better to have a benign raw material price environment, of course, it goes without saying.

Nirav Savai: Right. And what could be the sustainable margins if we were to understand for the Flexible Packaging business?

Akshay Kanoria: So, the Flexible Packaging is a lower margin business. It's typically like 10% sort of EBITDA and we do a lot of specialty material. So, we try to get a better margin. However, in general, the return on capital, return on investment, those are along the similar lines. As a company we sort of target 20% RoCE. So, that's what we look for either way. So, whether the EBITDA margin is higher or lower, it doesn't really affect that formula.

Nirav Savai: Right. And in Folding Carton business, how do we see capex going forward? Is there any expansion plan for the next year?

Akshay Kanoria: Yes. So, in the Folding Carton business, we are expanding our capacity in one of our plants at the end of this year. And for the coming years, we will see. We have enough space in our existing plants to quickly add any capacity as and when required. So, we don't really have any concrete plan as such. But we, as and when the utilization is at an optimal level and we really need to invest, we will invest. In Creative Offset, we will be continuing to invest little bit in additional capacity, additional space etc. And in the Flexible Packaging, we'll see once we are at a higher level of utilization, maybe sometime next year we will review. But basically now, we have a fairly well spread geographic footprint and our plants are quite spacious enough to accommodate for the brownfield investment. So, that gives us little flexibility, like, we don't have to have some long gestation project.

Nirav Savai: Right. Sir, what is the capacity we are adding in the current financial year in only this Folding Carton business?

Akshay Kanoria: So, we are adding about 5,000 tonnes of capacity in the Carton unit. We are adding a new machine. About 8% maybe on the overall.

Moderator: The next question is from the line of Resham Jain from DSP Investment Managers.

Resham Jain: Congratulations on very good set of numbers. So, my question is basically on the earlier participant did ask about the capacity enhancement across different lines of business. But if you can just help with the existing capacities and with the optimal utilization levels, considering feasibility into the business, what kind of throughput or top line we can do from existing plant itself across all the lines of business? And also, if you can just explain the cashflow utilization, let’s say, in the next two years’ time, because now it's good top line, good margins and all, our cash generation has also improved. So, from that perspective, how are we going to deploy this incremental cash flows into various businesses?

Akshay Kanoria: Thank you, Resham. So, I think we can, without getting into tonnage and all, because that is like a rabbit hole we don't get into, but generally, we can do maybe 15% to 20% more on our current run rate without any major issues. And perhaps, a little bit more we can stretch it, but that doesn't always happen because somewhere, in some plant you're not always fully utilized everywhere. And then of course, once you're at a good utilization then you can focus on either adding capacity or improving your margin. So, it depends. As far as the cash flow in the next two years, for sure if the capacity expansion is going to be moderate, then your, all the ratios and interest burden and depreciation burden, and all these things improve, and the cash flows improve for sure. And we have seen that also in the last couple of years, our debt equity ratios etc., have improved and in line with that, the others have improved as well. So that will continue. But, of course, if we want to grow high double-digit rates, like what we have been growing, that will require capacity expansion, and the only difference is that now since we have a good footprint, we don't have to really plan very far in advance our capacity expansion. So, that's why we don't have a solid sort of written down plan for next year, but certainly if it continues like this, we will have to incrementally add capacity.

Resham Jain: So, Akshay, just from the RoCE perspective alone, till now, we have been able to maintain with a good amount of capex, 20% kind of RoCE. And as you mentioned, now we'll have more of brownfield capex. So, the RoCE for the incremental capex, should one assume to be much better than the 20% run rate which we have done on an average in the past?

Akshay Kanoria: So, I don’t have a guide for anything, but generally speaking, we target about 20% plus return on capital and as long as we can maintain more than 20%, we are quite satisfied.

Moderator: The next questions from the line of Shivam Saxena from ICICI Bank.

Shivam Saxena: Just I have a question on paper and Paperboard business. So, I think that is being used in the e-commerce am I right, Paper and Paperboard business?

Akshay Kanoria: Hi. Okay. So see, when you order a packet from Amazon, that comes in that shipper brown box. That is not our business.

Shivam Saxena: Okay. So, what do you cater to in that? So, in e-commerce, you're not getting benefits from e-commerce? I wanted to understand this point.

Akshay Kanoria: I mean, marginal, because there's all these offer packs and gift packs and all which are increasing with e-commerce. So, to that extent, we are getting a benefit. And generally, as far as e-commerce is driving greater penetration and offtake and all of that, we get that benefit. The volume of the packaging requirement is not really going to be affected that much by e-commerce.

Shivam Saxena: So, which segment do you cater to your Paperboard business? Just wanted to understand which line of business are we in primarily?

Akshay Kanoria: So, for more information you can go through our Investor PPT and our website, but just to quickly answer your question, our biggest segment of industry is the FMCG business. So that is all your listed or unlisted multinational, big Indian companies like Unilever, etc., who are our customers. And then there's the food and beverage segment, pharmaceutical electronics liquor, tobacco, all of these players who require printed packaging material, which is pretty much what you see on a shelf today. Those are the things that we supply.

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

Jayesh Shroff: Congrats on a very good set of number in challenging times. My question is finally on our Innofilms business. So can you just throw some light on what the status is because I think we've been running trials since quite some time. So, has there been any customer approvals or have we started commercial supply?

Akshay Kanoria: Yes. So, thank you very much for your question. Yes. So Innofilms is a long gestation sort of development process because this is a primary packaging material. So major customers, the big customers, they take a lot of time and their testing and stability trials are very extended. First they take runnability trial, which can take a few months. Then they take stability and shelf-life studies which can take anywhere up to six months. They take transit trials, which can take a couple of months. It's a very long gestation process. So that is in process. In general, though, we have got a few customers on board for this. And that process is underway. And there is a good scope in India and for export in this. So generally, it's looking positive only but it's very early days.

Jayesh Shroff: Okay. When you think we can start commercial supplies? Any rough cut timeline in terms of when we can actually start the business?

Akshay Kanoria: We are doing commercial supplies. Not in a very extensive way but we are doing commercial supplies already. And we are already manufacturing for our regular films in-house consumption as well. So that is going on. So, it's not the plant is idle or anything, but it's going on. But obviously, the point of this was not to only cater to our in-house consumption. It was to add something new in the market. So, that is taking time but the trend is positive.

Jayesh Shroff: Sure. Just one more question. I mean, if you on our mainstream business of packaging, generally, the commentary from the FMCG or even the discretionary consumption side is that the premium part of the market is doing well and the lower end of the market or the basic segments, which is actually struggling for volume. So, I think usually we would actually be beneficiary of such a trend. So, is that the shift, I mean, both in terms of the way market is behaving and our margin trends for us?

Akshay Kanoria: So, generally speaking, look the volumes are catered by the mass, right. Whether it's Paperboard packaging or any other type of packaging. So, when your bread-and-butter business is not growing, then obviously nobody's happy, even if the premium portfolio is still growing. But that's a very small part of overall volume. So, obviously you want that virtuous cycle of bottom up growth to be there. The general commentary I would say, something we can agree with. That's the trend we are seeing as well from our customers. That is true, that is happening, but and this is mostly tied to inflation. Now, we hope that the inflation can normalize or stabilize.

Jayesh Shroff: Is there any volume compression happening?

Akshay Kanoria: I don't know. I mean, I think there's a volume growth that has come off but is there a degrowth, I don't think there's any degrowth as such, but the growth has come off. And what happens with us is, it is very hard for us to understand what's going on at the consumer end of the supply chain because we are right at the end, on one end of the supply chain. So, there's a sort of bullwhip effect, where our customer may be stocking up or destocking, that may not have anything to do with actual demand at the end of the chain.

Jayesh Shroff: Okay. So, it's more or less, as of now a stable volume scenario. Maybe, going ahead if there is some destocking cycle going, we may see some pressure. Is that what you are trying to say?

Akshay Kanoria: It is also very seasonal linked. People stock up before Diwali and if they can’t push that much material into the market, they end up crashing the offtake during the subsequent months. So, that’s how it generally happens in our industry. So, it's not easy for us to estimate on a month or a quarter basis, what's actually going on at the customer end, but if you look at over the course of several quarters or a year or two years, then we can give a better picture.

Moderator: The next question is from the line of Shrinath Mithanthaya from Motilal Oswal Asset Management.

Shrinath Mithanthaya: Just wanted to check our overall strategy in the Flexible Packaging business, because we are now largely into wrap around labels and shipping papers and so on. So, is there a larger strategy in the plastic packaging business, Flexible Packaging business?

Akshay Kanoria: Yes. So, our strategy in Flexible Packaging is, when we started in this business, we started very small way with a highly specialized line doing some specialty products like the shipping paper and few other things. And that took a couple of years. We stabilized. We grew and we got to optimal level of utilization and then it came to what's next and how to grow further in this business. So, the strategy from our side was very clear, that we want to invest in long-term growth potential businesses. And we saw in this Flexible Packaging business, a big trend towards sustainability and recyclability of packaging. So, that was the logic of the TCPL Innofilms and the investment we made there. At the same time, we also augmented Flexible Packaging capacity, earlier we could do only a certain segment of the industry or certain segments of product, and now with the new expansion that we've done, and the various offline equipment that we put, we can pretty much service anything that the customer requires in Flexible Packaging.

So, the idea was two-fold. One is to have a link up in the sustainability venture of most of our customers. And the second was to increase our offering. So, we've done both with recent capacity. So now our strategy is to build on that, spread the existing capacity, and then we can keep incrementally adding new capacity basis the demand that we see at the time.

Shrinath Mithanthaya: Right. You were also considering for example, putting up a metalizer and stuff. That significantly increases the addressable market. So, is that plan still on or is there a change?

Akshay Kanoria: Yes.. Absolutely, we will look at everything. So that is also there for future and we have faced that. That's a good thing. So, it depends on the uptake and the specific products where we see some success. So, it is a vast market and has a huge volume overall. So, one customer’s one product can also fill up your entire line. So, it really depends on where we strike with this Innofilms and other products. There's also a good export potential, and this is a higher per-kg value product. So, the freight costs and all are not as cumbersome and it's a little more volume you can stuff into a container. So, Flexible Packaging in general, easier to export. More export friendly. So, that is also there.

Shrinath Mithanthaya: What I was trying to arrive at is that, eventually, do we see ourselves competing with the likes of say Huhtamaki and UFlex, in that league? They're very large. They're very large and we are small, but still, will we end up competing with them?

Akshay Kanoria: We are already competing with them. Yes, they are larger but in the Carton business, we are already servicing most of the same customers. We already have that customer relationships. We already have that credibility. And with this Innofilms and all of that, we have a good technological basis on which to compete. So Yes, that is certainly long-term, where we would like to see ourselves.

Shrinath Mithanthaya: So, cross selling and share of wallet is possible, right?

Akshay Kanoria: Yes. Sure.

Shrinath Mithanthaya: My second question was on capex. So, should we budget about INR80 crore to INR100 crore every year for the next three years? Is that a fair estimate?

Akshay Kanoria: Yes, I think broadly it's okay.

Shrinath Mithanthaya: About INR80 crore?

Akshay Kanoria: Yes. I think that's okay.

Shrinath Mithanthaya: Okay. And one final question was on the cost of debt, the cost of working capital debt. So, there has been some rise in interest rates. So, is it affecting us as well? What is the cost of debt that is there for us?

Akshay Kanoria: That is very marginally affecting us actually, and if you look at our interest as a percent of the turnover, that has come down. Generally, debt service cost is not really going up.

Shrinath Mithanthaya: So, last three, four years, it's been hovering around 10%. I mean interest as about cost of debt. Is that a fair number?

Akshay Kanoria: It's come down from there slightly.

Moderator: Thank you. 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 very much. I hope we have been able to answer all of your questions. Should you need any further clarification, or if you'd like to know more about the company, please feel free to contact us or CDR India. Thank you again for taking the time to join us on this call. We look forward to interacting with you in the next quarter.
