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14th November 2024

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Dalal Street,
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Security Code:-523301

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

Dear Sir(s),

Re:- Transcript of the Q2 & H1 FY25 Earning Conference Call

With reference to the aforesaid subject, attached is transcript of the conference call of the Company held with Investors & Analysts on Monday, 11th November 2024.

Kindly take the same on record.

Thanking You

For **TCPL Packaging Limited**

HARISH ANCHAN

Digitally signed by HARISH ANCHAN
Date: 2024.11.14 09:57:15 +05'30'

Compliance Officer

TCPL Packaging Limited

Q2 & H1 FY25 Earnings Conference Call Transcript
November 11, 2024

Moderator: Ladies and gentlemen, good day and welcome to TCPL Packaging Limited 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 Mr. Anoop Poojari from CDR India. Thank you, and over to you, Mr. Poojari.

Anoop Poojari: Good evening everyone and thank you for joining us on TCPL Packaging's Q2 and H1 FY25 Earnings Conference Call. We have with us today Mr. Akshay and Vidur Kanoria – Executive Directors; and Mr. Vivek Dave – GM (Finance) of the Company.

We would like to begin the call with brief opening remarks from the management, following which we will have the forum open for 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 would now like to invite Akshay to make his opening remarks.

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

We are pleased to report a strong performance this quarter, with healthy double-digit growth in both revenue and profit. This quarter marks the best performance in the Company's history, as we surpassed Rs. 450 crore in revenue for the first time. In Q2, consolidated revenues reached Rs.463 crore, reflecting a 14% year-on-year growth. Our EBITDA also grew by 18%, reaching Rs.77 crore, with solid margins of 17%. Additionally, PBT increased by 22% to Rs. 45 crore. Both PAT and cash profits showed strong growth, reaching Rs. 36 and Rs.64 crore, respectively.

This strong performance reflects our commitment to innovation, sustainable solutions, and operational excellence. These key pillars have enabled us to deepen our presence in major markets, expand market share and steadily grow our customer base. Looking ahead, we remain focused on enhancing our footprint in high-potential markets to drive sustained growth.

Our Greenfield facility in southern India is progressing well, with commissioning expected in the coming months. Strategically located near Chennai, this facility is the latest addition to our manufacturing network, further strengthening our extensive presence across India. This customer-centric infrastructure has been instrumental in our ability to consistently outperform our underlying industries, enabling us to meet demand efficiently and maintain a competitive edge nationwide.

In conclusion, we are committed to building on the strong foundation we have established over the years. Our focus remains on expanding our reach, enhancing our capabilities, and continuing to deliver value across markets. Overall, we remain confident in our ability to navigate an evolving landscape and believe we are well positioned to drive sustainable growth for the benefit of all our stakeholders.

On that note, I would 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 with the question-and-answer session.

The first question is from the line of Pavan Kumar from RatnaTraya Capital.

Pavan Kumar: Firstly, congratulations for the great set of numbers. I wanted to understand, on the subsidiary side, we seem to have done a pretty decent job in terms of revenues, but the EBITDA seems to have actually compressed. So, first of all, how sustainable is the revenue run rate? And what kind of EBITDA growth can we see at the subsidiary level going forward? My second question would be regarding the Chennai facility. When is it expected to commence? And what kind of revenue potential does it have as of now?

Akshay Kanoria: Thank you very much, Pavan. So, on the first question, the subsidiaries have grown in a high double-digit rate this year to date. If we talk about six months to six months also, and even for the quarter, yes, the EBITDA margin is a bit tight, but that's, I think, a function of the overall scale. It's still not up to the expectation in terms of the total turnover that we are doing and that drives profitability. So, it is not yet margin accretive as we would like. So, certainly, we have a lot of work yet to do on the subsidiary front, but it is certainly sustainable. I mean, there is no problem in sustainability. And I think we can continue to sustain a high double-digit growth rate and eventually grow into our profitability. On the second question of Chennai, we are expecting to commence in the next maybe month-and-a-half. So, we have not given a firm date yet. So that we will, you know, once we are getting closer to the final commissioning date, then we will have a firm date, but in the coming month to two months' time. That's our expectation. And after that, it will take a few months really to stabilize and slowly, slowly start supplies to our customers. Typically, these guys have to audit your plant, then they start with smaller volumes and then it starts ramping up. So, eventually, it can add about 750 tonnes a month of capacity on the conversion of board and that translates into a revenue of maybe Rs. 70 to 80 crore a year to begin with. And then after that, we have a very large expansion space. So, we can keep adding incremental capacity over time.

Pavan Kumar: One small follow-up. So, on the subsidiary level, can we see some potential to get realized at least in the next year in terms of profitability levels? Or it is very difficult to say even now?

Akshay Kanoria: Yes. I mean, the scale is very small. When you are at Rs. 4, 5 crore kind of run rate to add Rs. 2 crore more doesn't sound like much and that can happen very quickly also. So, I don't want to like guide for any particular time period, but yes, certainly, we are putting all our efforts, and we do see the business growing for sure. So, we are quite optimistic.

Moderator: The next question is from the line of Rohan Kalle from InCred Capital.

Rohan Kalle: Thanks for the opportunity and congrats on a good set of numbers. I have largely two questions. One is on our domestic business. As for my estimate, we have grown about 6%-7% in the first half. Just wanted to get your sense of how you expect the second half to be. And on the second part, how are the utilization levels right now in the folding carton and the flexible packaging segments?

Akshay Kanoria: So, we don't give the split between what we are doing domestic versus export. However, the domestic has grown. It's not that it's not growing. But yes, certainly market conditions are a little bit challenging for sure. So, overall volume growth in FMCG and related industries in India, as you must be seeing from the numbers that have been released by our customers so far has been fairly weak compared to the expectation. And as far as the capacity and the utilization is concerned in the flexible packaging plant, as you know, we added substantial capacity last year at the end of last year. So, there is still substantial capacity left underutilized. I mean, at least 30%-40% extra capacity to be to have. In the folding carton segment, we were fairly well utilized with 80% percent utilization rate. But Chennai is coming up soon, and then we added a new line just this month in Goa. So, there is some further capacity that's just kind of coming on stream now. So, that number will change.

Moderator: The next question is from the line of Siddhant Dand from Goodwill Warehousing Private Limited.

Siddhant Dand: I just wanted to ask about this quarter and H1, how much of the margin improvement would be attributed to the fall in packaging board pricing or is it largely passed through?

Akshay Kanoria: So, you can pass through the numbers a little bit. But basically, there has been a positive impact on margin, thanks to raw material price decline, which has started like six to nine months ago and continued till now. But now, I mean, it's not there is not a significant improvement or worsening or anything in raw material prices now. It's just like very marginally up or down this last few months. So, there is no significant drop or increase in raw material price.

Siddhant Dand: So, has it benefited our margins?

Akshay Kanoria: Yes. Generally, a benign raw material environment does benefit, and it has helped. But there is a pass-through effect as well for most of the business.

Moderator: The next question is from the line of Jeewan Garg an Individual Investor.

Jeewan Garg: Firstly, congratulations on great set of numbers. As you mentioned, you've achieved very strong revenue, even historically. What do you believe has contributed to this? Is it domestic sales, or has export been a key factor, especially since you noted that the domestic performance of many of your customers has been weak?

Akshay Kanoria: Yes. So, we don't give our wallet share of domestic versus export. But both segments have grown. There is growth in the domestic market. That's what my point was that despite the market being slightly weak, we are still growing and we hope that as the market improves, that can further improve.

Jeewan Garg: So, can we say that we are taking the market share of our competitors?

Akshay Kanoria: Yes.

Moderator: The next question is from the line of Vedant Bhasin from Minerva India.

Vedant Bhasin: Congratulations on the good set of numbers. I just had one question. I know you don't share the split of export versus domestic. But if you could just shed some light on what countries the export is really going to?

Akshay Kanoria: Yes. So, we export to Western and Northern Europe. We export to the Middle East. We export to Africa. We export to Southeast Asia. We export to several of our neighboring countries and a little bit to North and South America.

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

Pavan Kumar: Akshay, just on the flexible packaging side, I understand our current utilization is somewhere around 60%-70%. So, by what time can we expect to hit full utilization and any plans for the capex going forward on that?

Akshay Kanoria: So, the flexible packaging is performing quite well in terms of growth. And it's steadily ramping up revenues. We are constantly penetrating into new customers as well as new markets for export as well. So, it's growing and it's more or less satisfactory, I'd say. We are not dissatisfied. And once this capacity is fully utilized, then we will look at further expansion. We have space for further expansion. So, there is no problem in terms of adding further capacity. The plant has the room for it.

Pavan Kumar: When can we get full utilization actually? Any kind of understanding on that?

Akshay Kanoria: So, as I said, when we did the capex in the first place, it takes typically six months to one year to really come to a good level of utilization. So, we are halfway through that process.

Pavan Kumar: And one thing on the recyclable film side, is the facility totally functional? What will be the utilization on that side?

Akshay Kanoria: It is fully functional, but as you are aware, it has only been a few months. So, the utilization for specialty films is still low right now. But we penetrated a couple of good customers as we updated in the last con-call, and we are seeing increasing traction, but certainly there is a long way to go.

Pavan Kumar: And the understanding would be, after whatever utilization that is taking place, most would be the recyclable film itself right now. Is that right or are we selling normal films?

Akshay Kanoria: We are making a lot of normal films.

Pavan Kumar: But the conversion will happen? Is that what we are seeing?

Akshay Kanoria: Yes.

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

Abhisar Jain: Thanks for the opportunity and congrats on the good performance. Sir, the question is on COPPL, your subsidiary, which is into the packaging for the electronics on mobile phone particularly. Can you talk about how the business traction is moving there and what kind of scale up, if at all, we can have in the next few years there?

Akshay Kanoria: So, as I said in the earlier question, we have good growth in terms of top line, but yet the bottom line has not come up to our expectation because we are still some way away from getting an optimal level of turnover over there. And there is a substantial scale up that we have to do and that there is space or capacity for that. So, yes, we have a long way to go, but it's improving sequentially year-on-year. So, we are growing, and we hope we can continue this or improve further this rate of growth.

Abhisar Jain: So, sir, any indication that you can give in terms of new clients that you may have acquired, like recently we did go towards full 100% ownership here also, and in that release, we had mentioned that large number of manufacturers are expanding in the mobile phone production. So, is there a case here where we would have got, say, some new clients and hence from the Rs. 40-crore annualized top line that we have in FY24, can we expect a decent scale up if not in FY25 but over the next 3 years?

Akshay Kanoria: Yes, so, we have entered into many clients and right now we are stabilized well in a couple of big clients, and we performed well. The main season is typically in this mobile business is this pre Diwali, they really start ramping up their requirements. So, this is where they really test you. So, you know, you may enter in Jan or Feb, but they won't really trust you with larger volumes and share until you perform reasonably well in this season. So, I think we have done a good job. So, hopefully, we will have a few anchor customers now who will grow with us. And then in this rigid box space where the high value and the better margin is, you have to sort of develop a lot of smaller customers who will give you that margin. So, that's an ongoing process which we are constantly doing, and we are constantly cracking some of the other new clients. So, it's in process.

Abhisar Jain: The other question, while I agree that you don't provide the breakup on the domestic and the export, but just wanted directionally versus whatever growth we used to have in exports in the past, like so last 3 years, 5 years, have we at least started growing faster in the exports? Can you make that statement or is it difficult to call that out of?

Akshay Kanoria: I mean, we have had a fairly high growth in our export over the last several years, and we are continuing to grow at a very comfortable pace. So, we are quite happy with our performance. And if we can manage this level of growth in coming years, it would be very, very positive.

Abhisar Jain: That's great. So it's the last question. What's the capex plan for FY25 as a whole and whatever would be the surplus cash flow that you generate going ahead, is there some initiative plan for that or would that then go in reducing the net debt on the books?

Akshay Kanoria: So, we have many plans, like larger plans, and then typically very few of them work out. So, we keep looking at new opportunities, some M&A, or some new lines of business, and we are very bullish and growth oriented. So, our ambition is always to invest more and grow, but one has to be very judicious about the choice of investment and where to put the money. So, we have lot of balls up in the air, but typically, only one or two will land in a two-year time period. So, that, I think, hopefully, kind of in a roundabout way, answers your second question. On the first question, capex plan, we have over Rs. 100 crore of capex plan per year, because typically we have to add some incremental capacity in our carton business. Then flexible packaging also, there will be some incremental capex. We are constantly looking to acquire neighboring lands around our plants where we have grown, like, say, our older plants, where we are running out of space. So, that activity keeps going on. And then we are just adding this Chennai plant this year, so that will be over. So, maybe hopefully it gets a good utilization. Then end of next year, that will require maybe some money. So, there is a lot of land and buildings and acquisition work. And then there is some incremental brownfield. Then there is a couple of larger projects which we are working on. Post all that, whatever is left over certainly will go into debt reduction. And if you see our track record last couple of years, we have substantially reduced the ratio of debt-to-equity and brought it into line. So, we hope to cement that over coming years, and hopefully we can improve it. But ideally, no, ideally, we should have some good investment opportunity to come up, and then we can put the capital there and grow further.

Abhisar Jain: Thank you so much, Akshay, and best wishes for a quick start for the Chennai plant and for the business as a whole.

Moderator: The next question is a follow-up from the line of Vedant Bhasin from Minerva India.

Vedant Bhasin: My question was really regarding what's driving export growth, what geographies are really driving that growth, if you can just shed some light on that?

Akshay Kanoria: So, you know, in terms of secular factors that are in our favor, I think, overall India supply chain, supply base has improved over the last many years. The scale of operations, I am talking about suppliers, has improved. We get most of our raw materials locally. Lead times are manageable, at least as compared to the rest of the world. Quality is good enough, and pricing is also competitive. And our scale has also improved, and our scale as a manufacturing has improved. And we have many clients who we are dealing with for many years, with whom we have performed well over a period of time, and those people trust you then with more and more business, and your name and reputation gets cemented, and then that leads to further growth. So, I think it's a confluence of many positive factors that have helped us.

Vedant Bhasin: Just a small follow-up question then. So, would you be able to shed some light on this export growth or even domestic growth for that matter? Has it come from the addition of new customers or is it existing partnerships that are already we have gone deeper in?

Akshay Kanoria: Yes, so this is a bit of a tricky one to answer because when you enter into a new customer, they don't typically allocate a lot of business, and it's a very slow process to grow with customers. So, usually by the second, third year or something, then you are doing some better numbers with any customer. So, typically it takes a few years to really ramp up with any customer, wherever it is. So, it's a long-term process, and we are adding new customers all the time whether here or abroad. So, yes, that's how we are growing.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as a last question, I will now hand the conference over to the management for closing comments.

Akshay Kanoria: Thank you. I hope we have been able to answer all your questions, and should you need any further clarification or if you would 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 the call. We look forward to interacting with you next quarter.
