

Stock Note

TCPL Packaging Ltd.

April 03, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Packaging	Rs. 1410	Buy in Rs. 1400-1425 band and add more on dips in Rs. 1250-1262 band	Rs. 1540	Rs. 1683	2 -3 quarters

HDFC Scrip Code	TCPPACEQNR
BSE Code	523301
NSE Code	TCPLPACK
Bloomberg	TCPL IN
CMP (March 31, 2023)	1410
Equity Capital (RsCr)	9.1
Face Value (Rs)	10
Equity Share O/S (Cr)	0.9
Market Cap (RsCr)	1283
Book Value (Rs)	579
Avg. 52 Wk Volumes	36055
52 Week High	1800
52 Week Low	647

Share holding Pattern % (December, 2022)	
Promoters	55.74
Institutions	4.90
Non Institutions	39.36
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

TCPL Packaging Ltd. (TCPL) is India's leading converter of paperboard and manufacturer of folding cartons. Its products portfolio includes printed blanks and outers, folding cartons, litho lamination, plastic cartons, blister paper, shelf-ready packaging, corner glued cartons, and liner cartons for use in cigarette, liquor, food and beverage, bakery, FMCG, automobile, stationery, pharmaceuticals and airline industries. Broadly, TCPL caters to FMCG, packaged foods, tobacco, liquor industries and industrials (like cable & wire boxes). FMCG accounts for more than 50% of the revenue.

To diversify, in September 2016, TCPL ventured into flexible packaging. TCPL's flexible line is capable of processing BOPP as well as paper, which will aid to roll out products like tipping papers, inner cigarette frame and laminates. Further, the company has doubled the capacity of its flexible packaging plant as this category is likely to be key revenue growth driver.

The Packaging Industry is widely recognized as a massive beneficiary of India's growth story: driven by attractive end-industry fundamentals and demographics. The onset of the retail revolution ushered in an era of transformation in the industry dedicated to eye-catching packaging designed for the shelf. Over the past few years, India has taken rapid strides in developing a strong digital ecosystem which has created opportunities for businesses along the value chain – including packaging. The proliferation of online retail has created a fast growing sub-segment of transit packaging in the larger industry. While a number of global companies have designed innovative and appropriate packaging for the omni-channel – organized retail (including online retail) is still at a nascent stage in India. The existing players of scale including TCPL, due to their current pole position, have a window of opportunity to become leaders of tomorrow by monetizing this opportunity at the right time.

Valuation & Recommendation:

The Indian packaging industry, regarded as a commodity play in the early 2000s, has now transformed into a value add, innovation driven and technology based industry. It is slowly but steadily coming up to speed with the mature global market and has historically been one of the most consistently growing sectors. With large-scale opportunities emanating from both retail and e-retail, the coming of age of the packaging industry will drive transformation in the very nature of the industry in India – the organized players stand to gain ground displacing the smaller dispersed participants.



TCPL is one of the few Indian companies which has posted ~17% CAGR revenue growth over past 15 years. Strong industry tailwinds, newer capacities and high quality offerings to ensure continued growth momentum for TCPL. Going ahead, we expect the company to grow its revenue/ EBITDA / PAT at the CAGR of 20%/22%/41% over FY22-25E.

Consistent requirement of growth capital has kept the debt levels high for the company, however, on relative basis the debt level has come down. TCPL doesn't have any major capex plans in the next two years while the future capex (if any) will not be more than its cash profits with no plans to raise any fresh debt. Thus, the company's debt level may peak out from FY23 onwards. Improving utilisation levels and better working capital management are likely to drive up the company's RoCE. **We think the base case fair value of the stock is Rs 1540 (10.8x FY25E EPS) and the bull case fair value is Rs 1683 (11.8x FY25E EPS). Investors can buy the in stock Rs 1400-1425 band (9.8x FY25E EPS) and add more on dips in Rs 1250-1262 band (8.8x FY25E EPS).**

Financial Summary

Particulars (in Rs Cr)	Q3FY23	Q3FY22	YoY-%	Q2FY23	QoQ-%	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	378	276	37%	362	5%	904	1,086	1,464	1,661	1,862
EBITDA	60	42	45%	58	5%	133	155	237	264	281
Adj. PAT	24	14	75%	22	9%	33	47	98	114	130
Diluted EPS (Rs)	26.7	15.3	75%	24.5	9%	36.8	51.5	108.2	124.9	143.2
RoE-%						11.7	14.6	25.7	23.8	22.3
P/E (x)						38.3	27.4	13.0	11.3	9.8
EV/EBITDA						12.0	11.1	7.2	6.2	5.5

(Source: Company, HDFC sec)

Q3FY23 Result Update

In Q3FY23, TCPL delivered yet another strong performance. Consolidated revenue grew by 37% YoY to Rs. 378 Cr on the back of higher volumes across both the business segment, and better realizations. Stabilisation in prices of raw materials and price hikes coupled with higher operating leverage enabled the company to register robust profitability during the quarter. EBITDA improved to Rs. 60 Cr in Q3FY23, translating into healthy margins of 16%. PAT grew by 75% YoY to Rs 24 Cr.

Update on the COPPL

- TCPL further invested in the Rights Issue of COPPL and has been allotted 45,844 equity shares, aggregating to Rs. 2.59 crore. Post the allotment of shares, TCPL now holds 84.07% in COPPL. In March 2023, TCPL invested in Rights Issue of its subsidiary company viz., Creative Offset Printers Private Limited (COPPL) and has been allotted 1,50,453 equity shares, aggregating to Rs. 8.50 Crores. Post allotment of shares as aforesaid, the company holds 87.66 % of the share capital of COPPL.



- TCPL enhances its diverse portfolio with entry into the high-margin rigid boxes market to tap the expanding smartphone and electronics sector.
- Successfully on-boarded several customers in this segment and expects to enhance share of wallet in the upcoming quarters.

In the flexible packaging space, TCPL has started commercial production of eco-friendly Polyethylene (PE) blown films.

Key Triggers

Diversified client base

The company caters to a wide range of industries, including FMCG, tobacco and liquor, among others. The sales concentration towards the top three industries (FMCG, tobacco, and F&B) remains very high. While this signifies high sector concentration, the same is mitigated to an extent by the company's long-term association with its clients as well as its reputed client base. Foray into the flexible packaging segment with effect from February 2017 has further enabled client diversification.





Strong technical edge makes TCPL rise above commoditization

TCPL has grown at >17% CAGR over FY07-22. Its ability to grow even amidst challenging environment is the testament of strong technical expertise to capture the latest trends in packaging industry and manufacturing & distribution network to cater to demand.

TCPL formed subsidiary company namely TCPL Innofilms Private Limited (TIPL). Here, it has setup a state-of-the-art innovative 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.

Considering the plastic waste disposal crisis, there is increasing pressure on brand owners to use recyclable packaging solutions which shall lead to higher off take for TCPL's products. Depending upon the traction in demand for this product, the TCPL management contemplates further investments to manufacture this innovative product.

TCPL's offerings across folding carton and flexible packaging segments

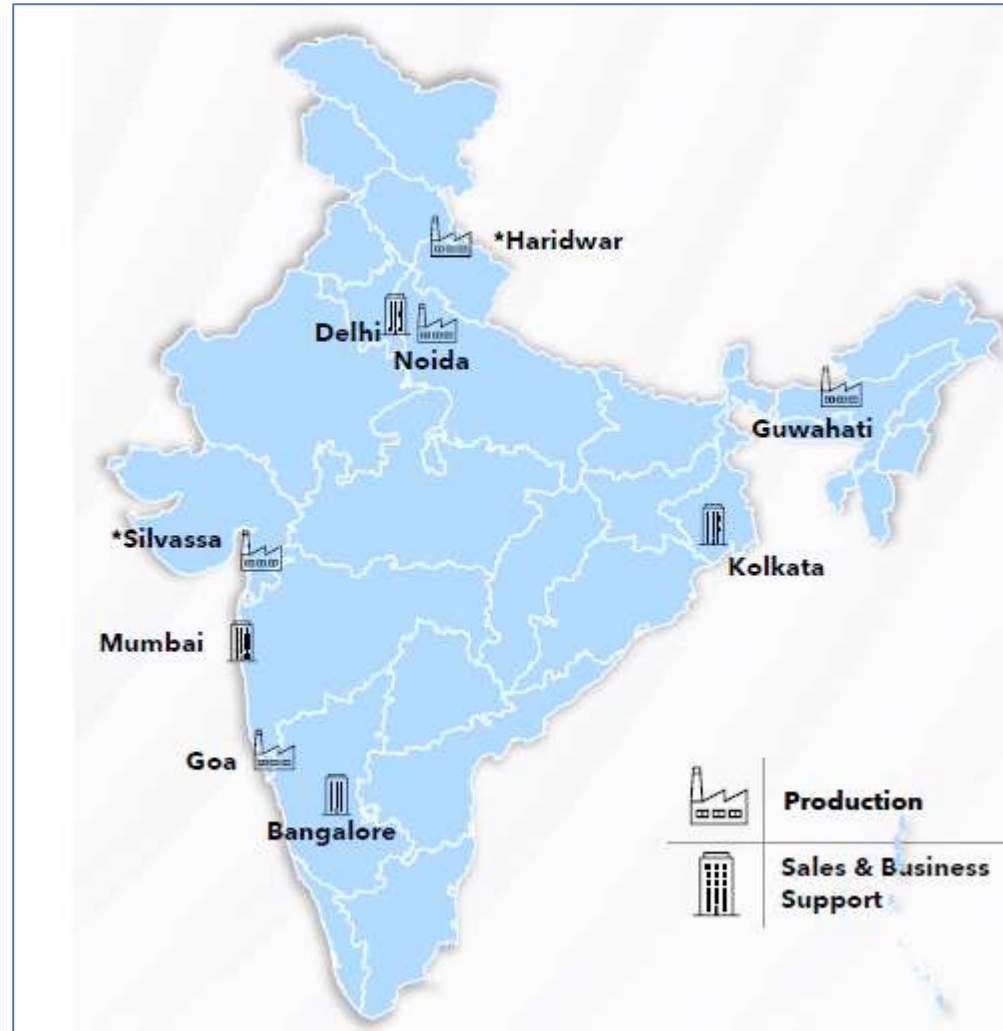


TCPL provides innovative and diversified packaging solutions





Close-to-demand strategy has enabled TCPL to emerge as one of India’s leading sustainable packaging solution providers

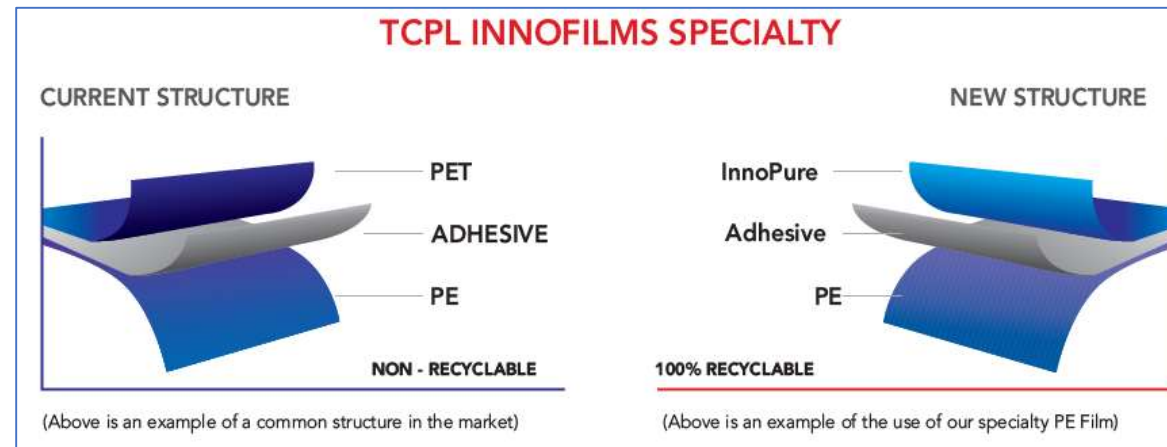


TCPL Innofilms specialty

In 2021, TCPL incorporated a subsidiary company TCPL Innofilms Pvt Ltd to manufacture and distribute blown polyethylene (PE) film and sustainable packaging films. The unique technology being employed in this unit enables the company to offer specially oriented PE films to



replace typically stiffer films like Polyester (PET). Such specially oriented PE films, once laminated with another layer of sealant PE film, will result in a mono-polymer packaging product. Being a single polymer family, this will be a recyclable product. This development will help in replacing current multi-polymer, non-recyclable products prevalent in the market. This unique plant is one of a kind enabling TCPL to be amongst the very few companies in India to be equipped with such capability. Besides this upstream investment, the company have also more than doubled the conversion capacity of our flexible packaging plant where we manufacture a vast range of laminates, shrink sleeves, and pouches.



COPPL Acquisition – Enters high potential rigid boxes segment

In November 2021, the company acquired a 60% stake in Creative Offset Printers Private Limited (COPPL). Further, it has invested in the company's rights issue which has increased its stake to 84% post allotment. In March 2023 TCPL invested in Rights Issue of its subsidiary company viz., Creative Offset Printers Private Limited (COPPL) and has been allotted 1,50,453 equity shares, aggregating to Rs. 8.50 Crores. Post allotment of shares as aforesaid, the company holds 87.66 % of the share capital of COPPL.

With this acquisition, TCPL entered into the high potential rigid boxes segment focused on one of the fastest-growing smartphone markets in the world. COPPL's manufacturing facility is strategically located at Noida to target India's large upcoming mobile manufacturing hub. After becoming the second-largest mobile manufacturing country in the world a few years back, India aims for the top position with production-linked schemes (PLI) to attract global majors. This augurs well for the high-end, rigid box manufacturing sector catering to the mobile industry.



The acquisition is aligned with TCPL's strategic objective to grow by leveraging its scale and institutional capabilities in a largely unorganized industry. With both entities having manufacturing facilities in close proximity, TCPL anticipates deriving notable synergies, including rationalization and optimization of various costs. Further, it has successfully on-boarded several customers in this segment and expects to enhance share of wallet in the upcoming quarters

Consumer electronics – High potential rigid packaging segment



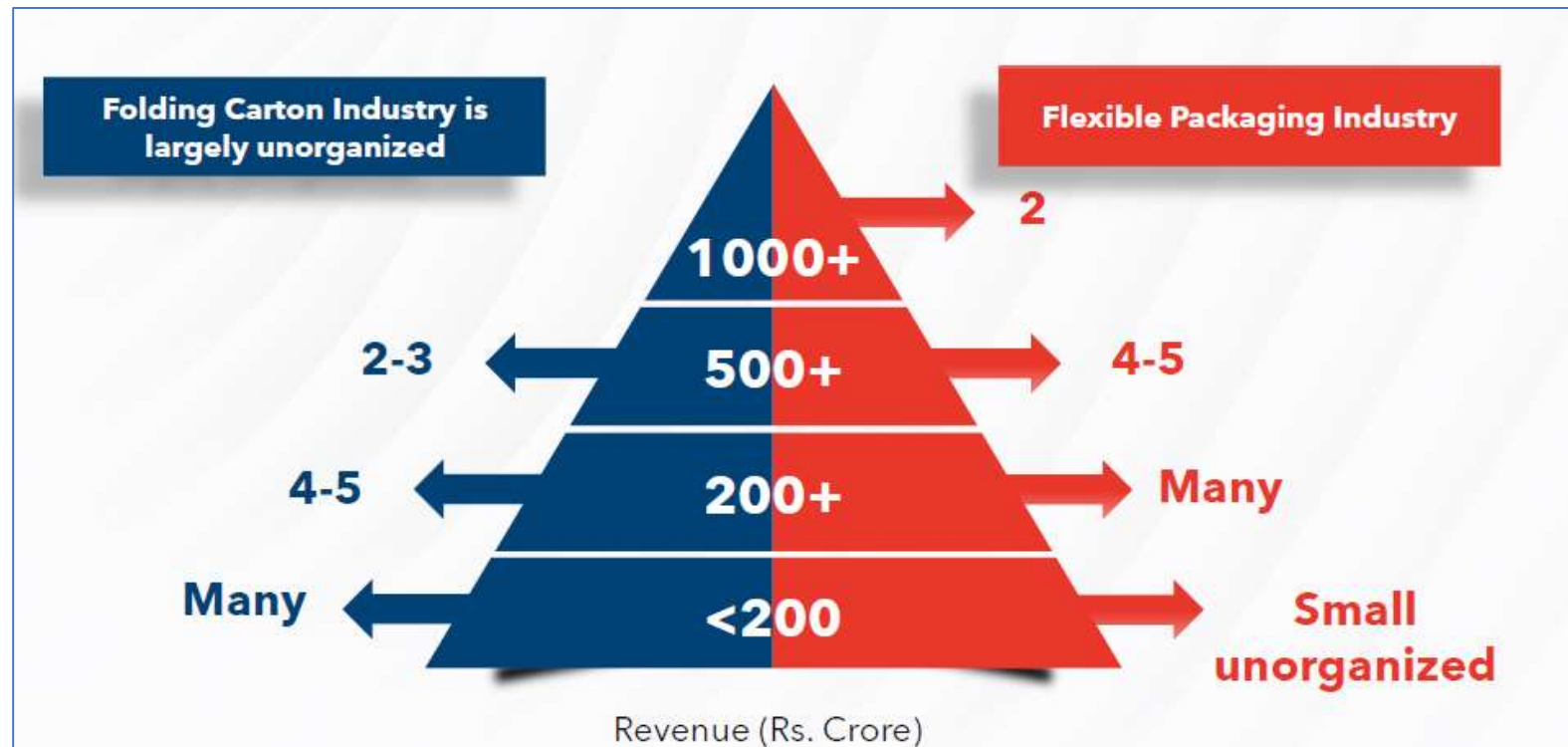
TCPL is set to be big beneficiary of industry consolidation

The folding carton industry in India, in particular, is traditionally unorganized and a largely small scale industry – highly labour intensive, fragmented and catering to low volume requirements. This is in sharp contrast to the global market where the industry is dominated by leading players who provide end-to-end integrated services right from manufacturing paperboard, converting to boxes and collecting waste for recycling. Despite the heterogeneous mix of players, some scaled-up packaging manufacturers have started embracing latest technologies and advancements that exist globally. As the current needs of the Indian market are starkly different from packaging requirements globally, these organized manufacturers have focused on tailoring their offerings keeping the Indian consumer in mind. A large section of the industry, however, still possesses limited technological capabilities – a key impediment to growth.



The inevitable shift from the traditional / unorganized sector is already evident in the gradual evolution of the Packaging Industry in India with some clear market leaders in respective sub-segments. A large part of the growth in the industry, is thus, a direct outcome of this transformational shift. Despite this visible transition over the last decade from a 70% unorganized share, roughly 45-50% of this industry still remains unorganized. This provides a significant opportunity for leading players to consolidate the market. There is intense competition among smaller players (<\$10mn) at the regional level who are witnessing competitive pressures and looking for growth avenues due to stagnant business performance.

The packaging industry in India is slowly but steadily coming up to speed with the mature global market and has historically been one of the most consistently growing sectors. With large scale opportunities emanating from both retail and e-retail, the coming of age of the packaging industry will drive transformation in the very nature of the industry in India – the organized players stand to gain ground displacing the smaller dispersed participants.



Note – Number of Companies with Rs. 1000+ crore, 500+ crore, 200+crore and <200 crore revenue



Strong industry tailwinds, newer capacities and high quality offerings to ensure continued growth momentum

TCPL is one of the few Indian companies which has posted ~17% CAGR revenue growth over past 15 years. Going ahead, we expect the company to grow its revenue/ EBITDA / PAT at the CAGR of 20%/22%/41% over FY22-25E. Commissioning of second line of flexible packaging unit was undertaken in March 2022 and would be the key growth driver. Furthermore, TCPL has commenced production of its Polyethylene blown film line at Silvassa. Successful scaling of blown films division and rigid boxes division under COPPL would be added kicker.

With higher contribution from flexible packaging segment, the EBITDA margins are likely to dip but absolute EBITDA could still grow. However, the focus on value added products and benefits of operating leverage as the company ramps up its capacities would cushion the margins. The major raw materials of TCPL are paperboard and polyethylene. Historically, the company has successfully passed on higher raw material prices to its customers with a lag of one month. As a result, the EBITDA margin of the company has remained in the range of 13-15%

TCPL has incurred a capex of Rs 378 Cr over FY16-20 as it undertook lot of greenfield expansion projects across India. Further, the company did a capex of Rs 244 Cr during FY21-22 mainly to double the flexible packaging capacity and strengthen its backward integration. According to the management, there are no major capex plans in the next two years. It plans to add one production line which is expected to be commercialized soon and undertake debottlenecking which together shall help it increase capacity by 10%. The future capex (if any) will not be more than its cash profits with no plans to raise any debt. The company believes that its debt level may peak out from FY23 onwards. Additionally, given the company has achieved a desired distribution of manufacturing facilities across, the capex would be predominantly brownfield which will likely generate superior return on incremental capital (RoIC).

In Q2FY23, TCPL received Rs. 17.3 Cr as an insurance claim for loss of fixed assets damaged by fire and loss of profit in the previous year.

TCPL's working capital cycle at ~85 days is higher than industry average of ~55-60 days. This is largely due to pandemic led supply disruption. However, the management has guided for a significant improvement in the working capital cycle (to ~60 days) in the next two to three years. This along with higher sweating of assets will lead to improved RoCE.

Key Concerns

Increased competition: The packaging sector is highly fragmented in India, with existence of many smaller unorganized players along with large players. The increase in competition from peers may impact margins of the company.



Fluctuating raw material prices: The key raw material for the company is polymers, which are highly correlated to the movement in crude prices. Though the company has a pass-through mechanism in place up-to some extent, a significant increase in raw material costs can lead to lower gross margins.

Delay in growth of FMCG consumption: The demand for company's packaging products is highly co-related with the growth of FMCG sector, which is the key user industry (~50% of revenues). Any unfavourable scenario like bad monsoon during a year, which might impact FMCG demand will have negative impact on the demand for flexible packaging, leading to lower revenues and decreased profitability for the company.

Company Background

TCPL Packaging Ltd. (TCPL) was incorporated as Twenty First Century Printers Ltd in 1987 by the Kanoria family, and was renamed as TCPL Packaging Ltd. in 2008. TCPL is one of India's leading producers of sustainable packaging solutions for customers across industries. The company partners with customers to provide paperboard-based packaging solutions including folding cartons, printed blanks and outers, litho-lamination, plastic cartons, blister packs, and shelf-ready packaging. TCPL has also ventured into the flexible packaging industry, with capability to produce printed cork-tipping paper, laminates, sleeves and wrap-around labels.

Headquartered in Mumbai, India, TCPL has a pan India presence with 7 state-of-the-art manufacturing facilities and marketing offices in key metro cities. Over the years, the company has effectively diversified and broadened its operations to service a wide range of packaging products, while consistently adding new customers and increasing its share of business in established customers and markets.



Financials

Income Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	890	904	1086	1464	1661	1862
Growth (%)	9.1	1.6	20.1	34.8	13.5	12.1
Operating Expenses	764	770	931	1226	1397	1581
EBITDA	126	133	155	237	264	281
Growth (%)	20.7	5.9	16.1	53.0	11.4	6.5
EBITDA Margin (%)	14.2	14.8	14.3	16.2	15.9	15.1
Depreciation	48	52	56	66	74	79
Other Income	2	3	3	9	5	6
EBIT	80	85	102	180	196	207
Interest expenses	37	37	34	47	43	32
PBT	42	47	68	150	153	175
Tax	6	14	21	38	39	45
PAT	37	33	47	112	114	130
Adj. PAT	37	33	47	98	114	130
Growth (%)	26.2	-8.4	40.0	110.1	15.4	14.7
EPS	40.1	36.8	51.5	108.2	124.9	143.2

Balance Sheet

Particulars (in Rs Cr) - As at March	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	9	9	9	9	9	9
Reserves	260	291	331	417	518	634
Shareholders' Funds	269	300	340	427	528	643
Minority Interest	0	0	2	3	3	3
Total Debt	356	331	449	460	367	276
Net Deferred Taxes	25	27	33	33	33	33
Total Sources of Funds	650	659	819	930	938	963
APPLICATION OF FUNDS						
Net Block & Goodwill	452	448	535	574	576	561
CWIP	1	11	48	48	48	48
Investments	0	0	1	1	1	1
Other Non-Curr. Assets	16	18	22	28	33	37
Total Non-Current Assets	469	477	607	652	658	647
Inventories	134	145	183	225	246	265
Debtors	162	177	228	281	309	337
Cash & Equivalents	16	6	11	25	6	8
Other Current Assets	18	33	38	40	49	50
Total Current Assets	330	361	460	570	610	660
Creditors	89	115	166	196	223	230
Other Current Liab & Provisions	60	65	81	95	106	114
Total Current Liabilities	149	179	247	291	329	344
Net Current Assets	181	182	213	279	281	317
Total Application of Funds	650	659	819	930	938	963



Cash Flow Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	42	47	68	150	153	175
Non-operating & EO items	4	-4	-3	12	-3	-2
Interest Expenses	37	37	34	47	43	32
Depreciation	48	52	56	66	74	79
Working Capital Change	-36	-8	-40	-70	-23	-36
Tax Paid	-9	-13	-18	-38	-39	-45
OPERATING CASH FLOW (a)	86	111	97	167	204	204
Capex	-61	-55	-185	-105	-75	-64
Free Cash Flow	25	57	-88	62	129	140
Investments	0	0	0	0	0	0
Non-operating income	-11	13	-10	0	0	0
INVESTING CASH FLOW (b)	-72	-41	-195	-105	-75	-64
Debt Issuance / (Repaid)	32	-22	147	11	-93	-91
Interest Expenses	-37	-35	-33	-47	-43	-32
FCFE	9	13	16	26	-7	17
Share Capital Issuance	0	0	0	0	0	0
Dividend	-5	-4	-7	-12	-13	-15
FINANCING CASH FLOW (c)	-10	-61	107	-48	-149	-138
NET CASH FLOW (a+b+c)	5	9	9	14	-19	2

One-year Share Price Data



Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)						
EBITDA Margin	14.2	14.8	14.3	16.2	15.9	15.1
EBIT Margin	9.0	9.3	9.4	12.3	11.8	11.1
APAT Margin	4.1	3.7	4.3	6.7	6.8	7.0
RoE	14.3	11.7	14.6	25.7	23.8	22.3
RoCE	13.4	13.4	14.4	21.5	22.0	22.9
Solvency Ratio (x)						
Net Debt/EBITDA	2.7	2.4	2.8	1.8	1.4	1.0
Net D/E	1.3	1.1	1.3	1.0	0.7	0.4
PER SHARE DATA (Rs)						
EPS	40.1	36.8	51.5	108.2	124.9	143.2
CEPS	93.3	93.4	113.0	180.7	205.7	230.4
BV	295.9	330.2	373.5	468.8	579.7	707.0
Dividend	4.0	7.4	10.0	13.0	14.0	16.0
Turnover Ratios (days)						
Debtor days	64	68	68	63	65	63
Inventory days	53	56	55	51	52	50
Creditors days	36	41	47	45	46	44
VALUATION						
P/E	35.1	38.3	27.4	13.0	11.3	9.8
P/BV	4.8	4.3	3.8	3.0	2.4	2.0
EV/EBITDA	12.9	12.0	11.1	7.2	6.2	5.5
EV / Revenues	1.8	1.8	1.6	1.2	1.0	0.8
Dividend Yield (%)	0.3	0.5	0.7	0.9	1.0	1.1
Dividend Payout	10.0	20.0	19.4	12.0	11.2	11.2

(Source: Company, HDFC sec)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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