

CMP: ₹848

Target: ₹1350

TCPLPACK | 523301

INDUSTRY: PACKAGING

11.84%
ROE

769.95 cr
MARKET CAP

13.4%
ROCE

₹10.00
FACE VALUE

₹357
BOOK VALUE

0.85%
DIVIDEND YIELD

FINTEREST CAPITAL COVERAGE REPORT:
INVESTMENT PICK



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INDUSTRY OVERVIEW

The global packaging industry market size continues to grow mainly driven by the increasing demand from end-user sectors such as FMCG, Food and Beverage, Retail, E-Commerce and Healthcare industries.

The Asia Pacific region remains the biggest packaging consumer. Over the past few years, India has maintained its position as one of the fastest growing consumers of packaging solutions in the world on the back of expanding domestic consumption.

The Indian packaging industry was expected to reach \$72.6 billion by 2020, growing at a CAGR of 18 per cent during 2016-21. Covid-19 may have derailed this growth considerably; however, certain manufacturing sectors, such as pharmaceuticals, packaged food and beverages, functional food and hygienic products among the FMCG, have been less affected by the crisis, and have rather seen a sizeable growth both in demand and in production, raising the demand of packaging. E-commerce in India is projected to grow rapidly at a CAGR of 27 per cent from 2017 to 2026 to reach \$200 billion by 2026.

Looking ahead, rising young population, growing income levels, changing lifestyles are expected to drive consumption across various industries leading to higher demand for the packaging solutions, including the sustainable paperboard-based carton and flexible packaging segment.

Given the environmental impact of certain packaging materials, consumers worldwide are becoming very sensitive. Accordingly, companies are looking towards opportunities to become more eco-friendly and adopt sustainable packaging solutions. The emergence of green packaging solutions is a key trend to watch in the current decade.

BUSINESS OVERVIEW

TCPL is one of India's leading producers of sustainable packaging solutions for customers across industries.

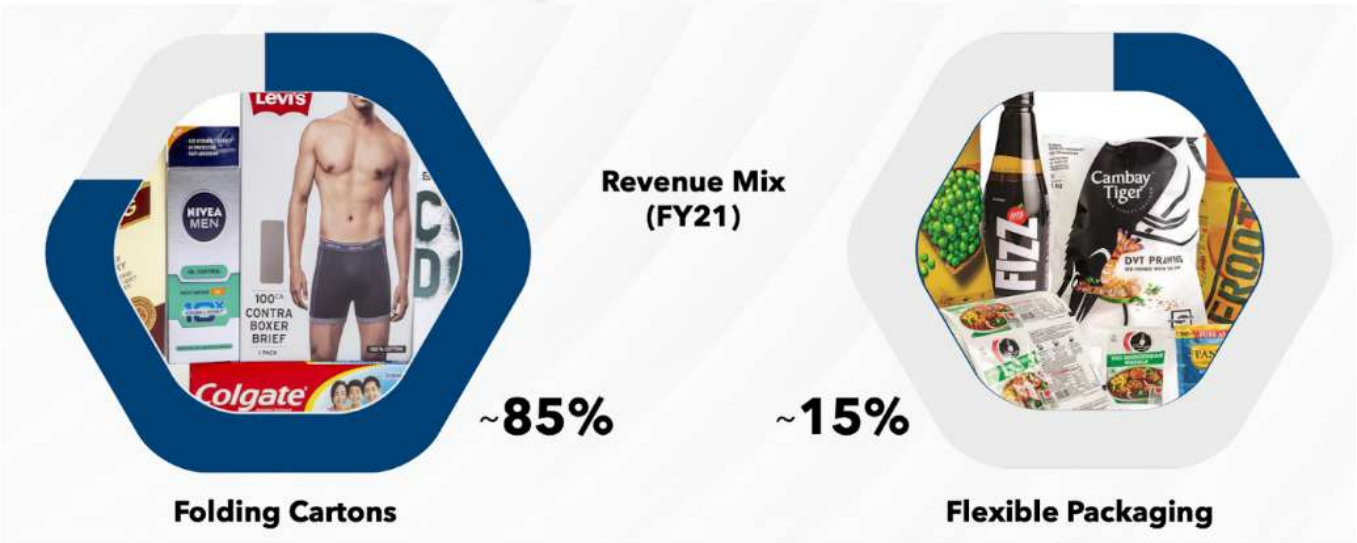
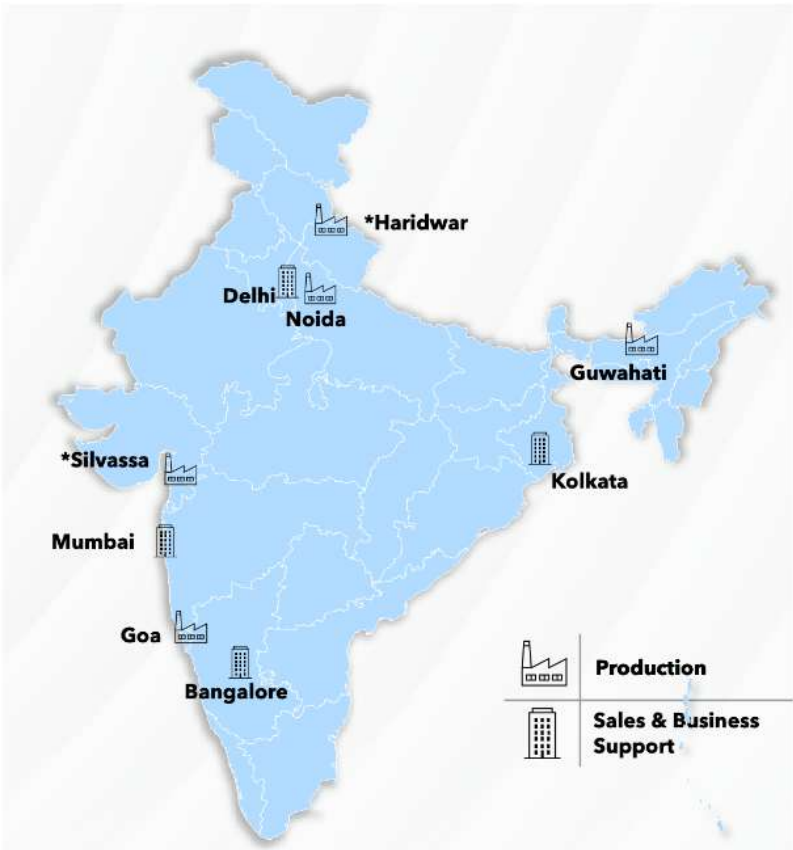
The Company partners with customers to provide paperboard-based packaging solutions including folding cartons, printed blanks and outers, litho-lamination, plastic cartons, blister packs, and shelf-ready packaging. TCPL has also ventured into the flexible packaging industry, with capability to produce 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.

The company has been accredited with international certifications of quality and implemented Integrated Management System (IMS) for all round quality assurance.



TCPL - AT A GLANCE



PRODUCT PORTFOLIO:

- **FOLDING CARTON DIVISION:** TCPL has been one of India's leading Carton Packaging companies since the 1990s driven by adoption of industry leading technology. It offers wide-range of innovative, sustainable & unique packaging solutions and is well-positioned to support diverse customer requirements with PAN India presence and network. The company has been mainly supplying to the FMCG, Food & beverage, Liquor, Pharmaceuticals and other industries.



- **SPECIALITY/GIFT PACKAGING:** TCPL is a leading provider of innovative packaging solutions for the fast moving consumer goods industry.



- **FLEXIBLE PACKAGING DIVISION:** The company is an innovative player providing versatile and sustainable solutions to customers across industry verticals and offers a variety of products including Pouches, Laminates, Shrink Sleeves, and Wrap Around Labels.



PEER COMPARISON

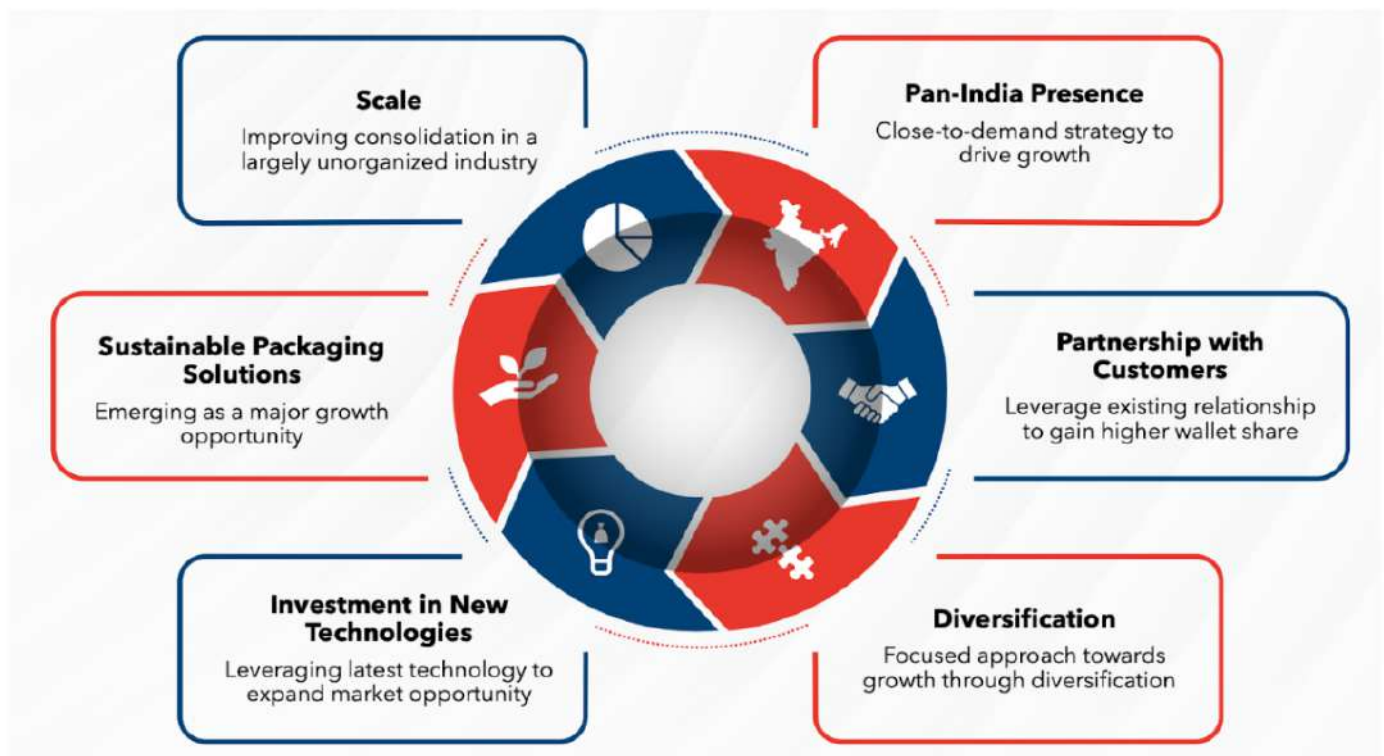
Particulars	TCPL	EPL	Polyplex Corporation	Uflex	Mold-Tek Packaging
Market Cap. (in crs.)	752.80	5,793.07	8,680.80	4,988.37	2,500.41
EPS (TTM)	47.61	5.52	202.07	27.20	20.59
PE	17.37	33.22	13.68	25.40	38.85
Book Value	357.03	25.92	225.16	359.93	137.23
CMP/BV	2.32	7.08	12.28	1.92	5.83
Sales Growth (%)	1.58	4.56	2.06	13.89	9.48
Profit Growth (%)	-7.61	44.61	97.29	60.85	25.88
ROCE (%)	13.40	21.20	66.85	14.07	21.83
ROE (%)	11.84	21.60	77.37	9.73	22.00

KEY STRENGTHS

- **Deep-rooted Relationships:** Long-term connection with marquee clients spanning over 31 years.



- **INNOVATIVE PRODUCTS:** Developing creative solutions by a dedicated team with proven capabilities.
- **ADVANCED TECHNOLOGY:** Equipped with latest state-of-the-art machines and several technical collaborations to ensure efficiency & productivity.
- **WIDESPREAD PRESENCE:** Operates multiple manufacturing units and a vast market network across India and Overseas.
- **SUSTAINABILITY:** Consistent investment in sustainable packaging solutions. During the fiscal year under review, the Company invested in roof top solar at two of its three Silvassa facilities for the first time. The management has decided to additionally invest in more such capacities at its other locations in the current year and the years ahead.

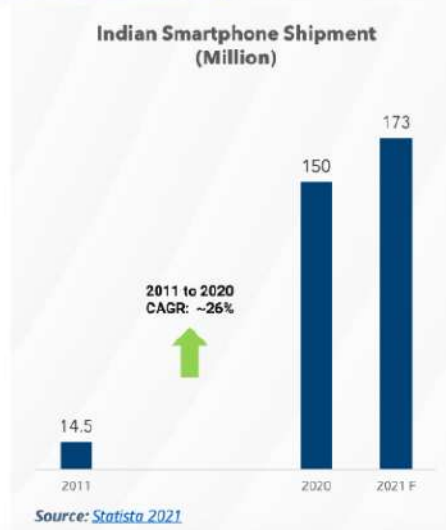


LATEST DEVELOPMENTS

SUCCESSFUL COMPLETION OF ACQUISITION OF COPPL: The company completed the acquisition of 60% stake in Creative Offset Printers Private Limited (COPPL) during the quarter.

In addition, TCPL has invested in the Rights Issue of the Company and has been allotted 2,12,405 partly paid-up equity shares, aggregating to Rs. 12 crore. Post allotment of shares, TCPL will hold 80.31% in COPPL.

This would significantly strengthen TCPL's diverse portfolio with the foray into the high-potential rigid boxes space targeting the growing smartphone & electronics industry. With the manufacturing plants of both companies in close proximity, TCPL expects to drive various synergies including rationalisation and optimization of various costs.



EXPANSION

The second manufacturing line in the Flexible Packaging segment is now operational, which will help TCPL to add more clients (domestic + overseas) in its flexible packaging business.

This will effectively double the segment's capacity. The company has also established one of the world's first state-of-the-art innovative Polyethylene (PE) blown film line at Silvassa. It is based on eco-friendly Machine-Direction Orientation (MDO) technology and the film line is expected to drive demand for the Company's Flexible Packaging segment given growing customer preference for sustainable & recyclable solutions.



CLIENTS

FMCG



COLGATE-PALMOLIVE

Johnson & Johnson

PATANJALI
Products by Ayurveda



marico



Jyothy labs

NATURE'S
ESSENCE

Vini

raymond

CHOLAYIL
Naturally Ancient

Olivia
Feel beautiful

NIVEA

McNROE



reckitt



Godrej

SC Johnson
A FAMILY COMPANY

Modicare



Foods & Beverages



PATANJALI
Products by Ayurveda



marico



Mondelēz
International



GENERAL
MILLS



Abbott

Heinz

PARLE

MARS



FERRERO



CAPITAL
FOODS



Agrochemical, Pharma Others



Zydus
Cadila

Johnson & Johnson

INDOFIL
INDUSTRIES LIMITED



ajanta pharma limited

Eris
POWER OF EMPATHY
TRUTH OF SCIENCE

L'Oréal
Imagine. Innovate



Cipla



Liquor



DIAGEO



Pernod Ricard



Tobacco



PHILIP MORRIS
INTERNATIONAL



Q3FY22 BUSINESS & FINANCIAL HIGHLIGHTS:

BUSINESS OVERVIEW

The FMCG segment & Food and Beverages segment contributes approx. 60% to TCPL's total topline followed by tobacco and pharmaceuticals industries.

The company entered manufacturing of flexible packaging products in FY17. It contributes 15% (i.e. Rs. 136 crores) to the company's overall topline. The flexible packaging division has registered a strong revenue CAGR of 57% during FY18-21 supported by customer addition and wallet share gains of existing customers. TCPL has doubled its flexible packaging capacity in FY22, which will help the company to double its revenue in the next two-three years.

The company has commissioned a new plant to provide sustainable and recyclable flexible packaging solutions. This will help TCPL to add more clients (domestic + overseas) in its flexible packaging business.

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%.

There are no major capex plans in the next two years. 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.

FINANCIAL OVERVIEW (in INR mn)



FINANCIAL SUMMARY (figure in crores)

1. Profit & Loss Statement

Particulars	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Sales	613.00	698.00	816.00	890.00	904.00
Expenses	516.00	613.00	711.00	764.00	770.00
Other Income	1.00	2.00	1.00	2.00	3.00
Interest	22.00	25.00	28.00	37.00	37.00
Depreciation	29.00	35.00	36.00	48.00	52.00
Profit before Tax	46.00	27.00	42.00	42.00	48.00
Tax %	30	25	31	14	29
Net Profit	32.00	20.00	29.00	37.00	34.00
EPS (in Rs.)	37.32	22.22	31.81	40.13	37.08

2. Balance Sheet

Particulars	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Share Capital	9.00	9.00	9.00	9.00	9.00
Reserves	170.00	207.00	232.00	260.00	292.00
Borrowings	303.00	298.00	320.00	356.00	331.00
Other Liabilities	119.00	123.00	155.00	174.00	207.00
TOTAL LIABILITIES	601.00	637.00	716.00	799.00	839.00
Fixed Assets	365.00	358.00	418.00	452.00	448.00
CWIP	5.00	6.00	0.00	1.00	11.00
Investments	0.00	0.00	0.00	0.00	5.00
Other Assets	231.00	273.00	298.00	346.00	375.00
TOTAL ASSETS	601.00	637.00	716.00	799.00	839.00

3. Cashflow Statement

Particulars	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Cash from Operating Activity	80.00	48.00	81.00	86.00	115.00
Cash from Investing Activity	-112.00	-33.00	-69.00	-72.00	-46.00
Cash from Financing Activity	32.00	-15.00	-11.00	-16.00	-67.00
Net Cash Flow	0.00	0.00	2.00	-2.00	3.00



OPPORTUNITIES

The onset of COVID-19 led to strict social distancing and sanitization norms that increased costs for the Company. This led to significant work done on cost-cutting and curtailing expenditure on all fronts.

As the macro-economic situation improves, these measures should benefit the company in the long run. The overall long term macroeconomic conditions in India are expected to improve considering the continuing stable Government at the Centre.

With a diverse geographical presence across India, TCPL fulfils the requirements of its customers for both carton and flexible packaging, giving your company a competitive advantage.

Also, considering a sizable quantity of unutilized capacity, an improvement in the market scenario will translate into high growth prospects for the coming year without much additional investment.

THREATS

The COVID-19 pandemic remains a threat to the Company's operations. The pace of vaccination as well as the effectiveness of hygiene practices will play a part in determining the future impact of this pandemic.

Additionally, in the past few months, there have been significant and unprecedented increases in costs of not only raw materials but also operating expenses, putting pressure on margins. Globally, prices for the main raw materials of the paper and plastics industries have increased notably. Key chemicals and metal prices have also increased substantially. Whilst the company tries to pass this on to customers and absorb some of it by improving productivity, there is still a threat of lag that may impact margins.

The increase of raw material costs is felt in both, the mono-carton as well as flexible packaging businesses. One of the risks for the Company includes growth of the underlying end-user industries such as FMCG, Food & Beverage, Tobacco, Liquor, among others.

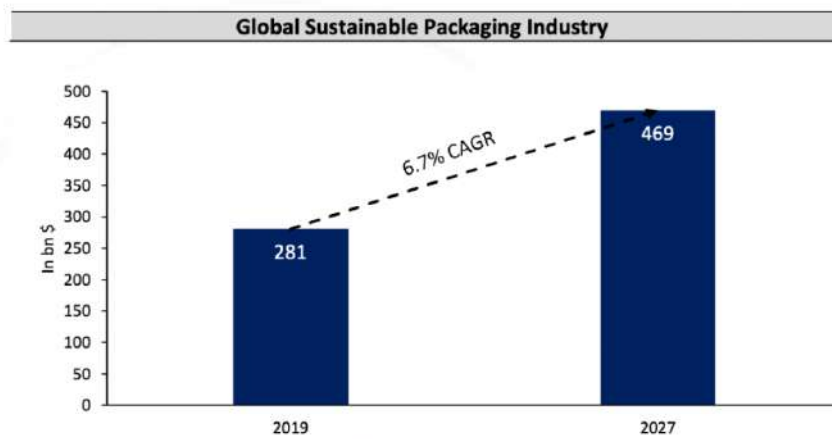
The FMCG sector is the largest contributor to TCPL's revenues and any adverse headwinds in the sector could also impact the company's performance.

Some of the threats in the industry include substitution, competition, bargaining power of buyers and suppliers. Due to the nature of some businesses, that are mostly on-site in stores, sales were dramatically cut during the pandemic, though they did recover in the second half of the preceding year.

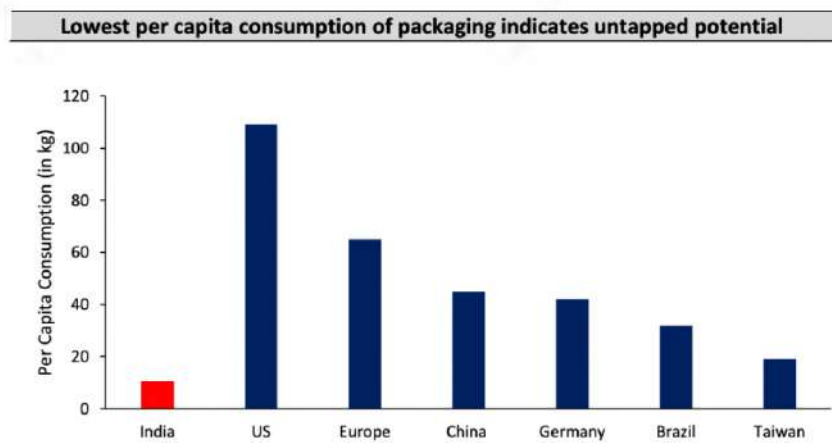


KEY GROWTH DRIVERS:

- **GLOBAL ENVIRONMENTAL CONCERNS AND STRICT GOVERNMENT REGULATIONS ARE TAILWINDS FOR THE SUSTAINABLE PACKAGING INDUSTRY:** Global environmental concerns and strict government regulations regarding toxic packaging materials has improved the growth visibility for sustainable packaging solutions. In order to reduce the contamination of the environment, manufacturers are moving to eco-friendly packaging solutions and hence paper and paperboards are leading the growth for this industry. TCPL is well placed as it derives 85% of its revenues from paper and paperboard packaging.



Source: Emergen Research



Source: Indian Institute of Packaging

- **PACE OF CONSOLIDATION IS ACCELERATING - ADVANTAGE FOR ORGANISED PLAYERS:** The unorganised sector has been weakened majorly by 4 events i.e., implementation of GST, Demonetization, the financial crisis of 2018-19 and the Covid impact. A battered unorganised sector along with the need for investing in new technologies and sustainable packaging solutions has led to the organised sector growing their market share faster than anticipated.



- **PROXIMITY TO MANUFACTURING CLUSTERS AIDS IN REDUCED COSTS THROUGH FREIGHT SAVING:** TCPL has 7 manufacturing facilities which are strategically located pan India. This enables the company to be present near the manufacturing clusters and save on freight cost.



- **DIVERSIFIED CLIENT BASE ACROSS ALL INDUSTRY VERTICALS:**



- **TCPL HAS BEEN AT THE FOREFRONT OF TECHNOLOGY ADOPTION:** TCPL is one of the few companies that has ventured into the recyclable mono polymer packaging industry with the setting up of a polyethylene blown film line at its Silvassa plant. The recyclable polyethylene film serves a dual purpose of in-house consumption as well as sale to the market. Depending upon the traction in demand for this product, the TCPL management contemplates further investments to manufacture this innovative product.

RATIONALE

- The company has commissioned a new plant to provide sustainable and recyclable flexible packaging solutions. This segment is expected to be the growth driver over the period FY 21-24.
- Revenue from this vertical is expected to grow by 34.5% CAGR to INR 324 cr in FY24 improving the revenue contribution by 800 bps to 23%.
- Shift from non-recyclable multi-polymer solutions to using recyclable mono-polymers is a mega trend in the offing. In its subsidiary TCPL Innofilms, the setting up of a polyethylene blown film line are baby steps in this direction.
- Increased contribution from the Flexible Packaging division to 23% is expected to lower EBITDA margin by 90bps to 14.2%. However, lower interest cost and adoption of new tax regime is expected to improve PAT margin by 80bps to 4.6%, over the same period.
- Recently Warburg had acquired Parksons i.e 80% stake in the company at an enterprise value of around ₹2,200 crore. This deal took place at a valuation of 18x of EBITDA of the company.
- With the same return ratios and margins, there is apparently a significant valuation gap in TCPL. Thus, TCPL has a good margin of approx. 80% valuation headroom with EBITDA expected to touch Rs. 200crs. with a market cap. of Rs. 1,500crs. in the coming two years to catch up with Parksons valuation.



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