

PORTFOLIO

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Folding cartons, Litho lamination, Plastic cartons, Blister paper, Shelf ready packaging.

TCPL mainly manufactures the above for the following segments :



TCPL Packaging Ltd (BSE Code: 523301) – Alpha/Alpha + stock report for Sep'15

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Company Snapshot (20th Sep'15)

BSE CMP – 490.80

Dividend yield – 1.22%

BSE Code – 523301

Market capitalization – Rs 427.00 cr.

Total Equity shares – 0.87 cr.

Face Value – Rs 10.00

52 Weeks High/Low – Rs 648.00/238.10

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Income from operations	100.86	119.66	159.38	188.48	240.21	283.34	373.29	394.92	497.84
Total Cost of Goods sold	53.93	63.28	85.99	105.86	136.67	159.49	216.71	226.70	280.07
Gross profit	46.93	56.38	73.39	82.62	103.54	123.85	156.58	168.22	217.77
Gross Profit margin (%)	46.53%	47.12%	46.05%	43.83%	43.10%	43.71%	41.95%	42.60%	43.74%
EBITDA	14.67	17.23	23.81	27.42	34.78	44.85	55.80	61.18	81.99
EBITDA margin (%)	14.54%	14.40%	14.94%	14.55%	14.48%	15.83%	14.95%	15.49%	16.47%
Foreign exchange effect on borrowing			-0.5	-0.85	-0.62	-3.53	-0.14		
Depreciation	-6.62	-8.17	-11.14	-12.09	-14.63	-17.97	-20.35	-23.79	-21.67
Interest	-4.23	-5.44	-7.29	-6.63	-9.84	-11.96	-14.95	-17.66	-17.29
PBT	3.82	3.62	4.88	7.85	9.69	11.39	20.35	19.73	43.03
PAT	3.09	2.92	3.47	5.37	6.29	7.70	13.51	12.5	32.18
ROAE	9.93%	7.34%	7.30%	10.56%	11.13%	12.13%	18.62%	15.07%	33.56%
Cash flows from operations	6.29	5.45	7.36	12.96	17.20	20.85	8.99	37.74	52.1
Debt to Equity ratio	1.24	1.37	1.36	1.43	1.33	1.63	1.58	1.59	1.37
Net debt	40.74	63.71	65.92	76.22	79.28	109.61	123.5	140.1	156.38

Understanding Business

What does TCPL do? TCPL Packaging Ltd., (formerly known as Twenty-First Century Printers Ltd) does an essential but a mundane job of manufacturing printed folding cartons and other packaging materials. The company is one of the largest manufacturers and exporters of printed folded cartons from India.

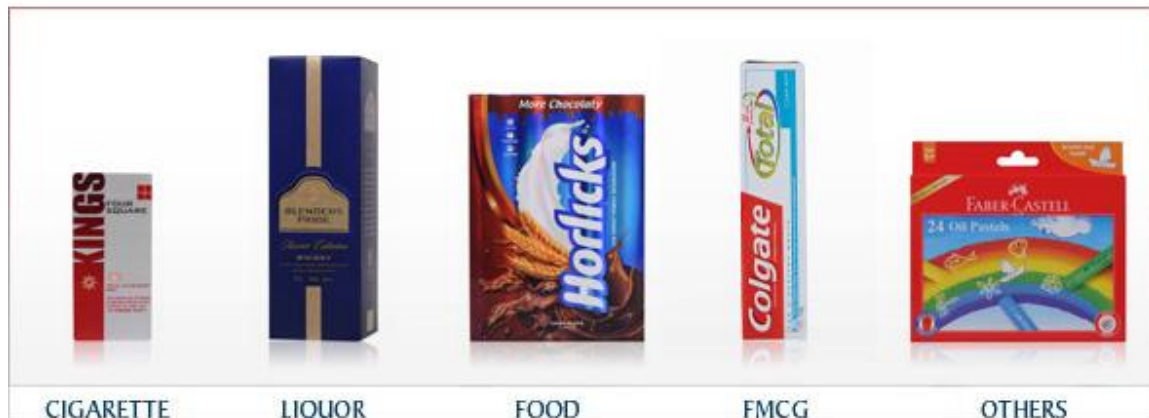
TCPL manufactures Folding cartons, Litho lamination, Plastic cartons, Blister paper, Shelf ready packaging, etc and these are used as packaging material in varied segments like: Tobacco, Liquor, Food and Beverage, FMCG, Pharma, Automobile, Stationery, etc.

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Manufacturing facilities – TCPL has 7 manufacturing units across Silvassa, Haridwar, Goa and a recently inaugurated unit at Guwahati. So, except for Southern India, company has its units spread across various regions enabling it to service clients across the country in a cost-effective manner.

The combined capacity of all the units of the company is ~71,000 MTPA while the company processed and converted 48,917 MT of board in FY 15.

The company's plants have necessary certifications and are also compliant with BRC/IoP Global Standard-Packaging Issue 3, which is suitable for direct food contact. In addition, plants at Silvassa and Haridwar are also FSC certified & SEDEX Compliant.

Clientele – TCPL has diverse range of clients (more than 50) from diverse industries as mentioned above. Over the years the company has been able to reduce its dependence on the Cigarette industry and has also been able to reduce its dependence on top 10 clients which now account for ~55% of the revenue of the company from more than 80% a few years back.

Exports – The packaging and folding cartons industry is gradually making a shift towards Asia and companies like TCPL are benefiting from the same. TCPL is one of the largest exporters of printed cartons from India. It regularly caters to consumers in countries like UK, The Netherlands, UAE, Bangladesh etc and the company has been consistently generating 15-20% of its sales from exports.

Importance of packaging – These days packaging plays a very important role in branding, preserving quality of products, product differentiation, etc and therefore though a mundane job there's reasonable level of customer stickiness in the business. Larger companies like TCPL also have an added advantage of their continuous ability of innovating and introducing new products, thus helping further the cause of retaining and adding new clients.

Overall, the business is simple and easy to understand and seems good to us on account of certain level of customer stickiness, domestic growth opportunities and increasing opportunities of exporting with manufacturing shifting from developed world to countries like India.

Packaging Industry

Packaging is one of those applications that simply can't be replaced by another medium. The packaging industry, as per almost all reports and market surveys is growing stronger mainly because of improved consumption practices all across the globe. From food and beverage products to pharmaceuticals to FMCG to electronics to furniture and a myriad of other industrial and consumer durables, packaging has a prominent role to play in the value chain.

Packaging, as distinct from mere "packing", plays most visible and catalytic role in a modern economy with the widespread adoption of branding of products and development of consumer preferences. To the extent that any consumer product is packaged in a manner that meets the criteria of safety, convenience and attractiveness, it gains market share. In the aggregate, packaging as a sectoral activity boosts consumption and economic growth. Heightened competition in all product sectors within the country as also the increasing need to look for export markets have contributed to the rising demand for appropriate, and at the same time cost – effective, packaging material and technologies.

Indian Picture – The packaging industry in India is one of the fastest growing industries which have its influence on all industries, directly or indirectly.

Apart from the huge value addition and employment involved in these activities, packaging has served the Indian economy by helping preservation of the quality and lengthening the shelf life of innumerable products – ranging from milk and biscuits, to drugs and medicines, processed and semi – processed foods, fruits and vegetables, edible oils, electronic goods etc., besides domestic appliances and industrial machinery and other hardware needing transportation.

The Indian packaging industry is growing continuously. The total worth is about USD 24.6 billion. The average annual growth rate is about 13 - 15%. However, there is great growth potential since India's per capita consumption of packaging is only 4.3 kgs

whereas neighboring Asian countries like China and Taiwan show about 6 kgs and 19 kgs, respectively.

This clearly indicates that there are many more commodities which need to be marketed in packaged condition and thus, a great business opportunity stands for the Indian packaging industry.

The key trends for rapid growth of the Indian packaging industry are as follows:

- India's retail growth and increased consumption of consumer products is driving the demand for packaging in the country.
- The packaging industry is expected to grow at a CAGR of 12.3% during the forecast period, to become the fourth largest global market, with sales of USD 43.7 billion in 2016.
- The Indian food processing market is one of the largest in the world in terms of production, consumption and growth prospects.
- India's per capita annual packaging expenditure was USD 20 in 2011, which is significantly lower than the top 20 market average of USD 347.6. The low per capita expenditure offers a huge business opportunity for packaging companies.

Shift towards Asia – As per WPO report in 2008, North American markets, including the USA, Canada and Mexico, accounted for the largest share of global packaging at USD 132 billion (32%), ahead of Western Europe (26%) and Asia (26%). The overall share of European markets however exceeded that of North America at USD 137 billion, equating to a 33% share.

However, according to Pira's 2013 report, sales of packaging are concentrated in Asia, which accounted for 36% of the total in value terms in 2012. North America and Western Europe totaled shares of 23% and 22% respectively. In 2012, Eastern Europe was the fourth largest consumer of packaging with a global share of 6%, closely followed by South and Central America with 5%. According to this study, this segmentation of the market is expected to change significantly by 2018, Asia is predicted to represent over 40% of global demand, while North America and Western Europe lose out noticeably.

What is quite conspicuous in these two reports, separated in time by about 5 years, is the shift of global packaging share towards Asia. The share of Asian packaging market will keep increasing in coming times as suggested by other reports also.

Paper and Paper board packaging

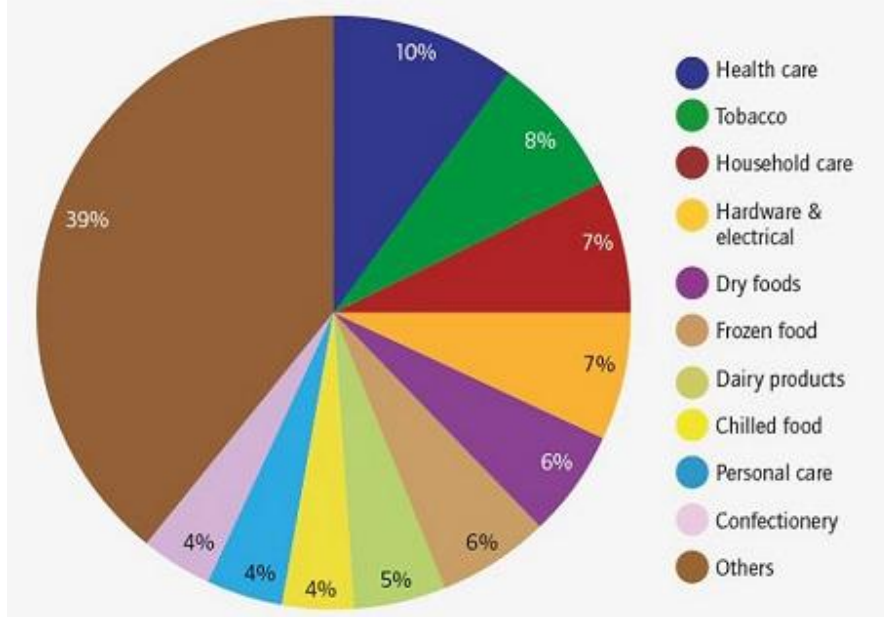
Packaging encompasses a wide range of material types across paper, board, plastic, metal, glass, wood and other materials. Paper and Paperboard packaging is fast emerging trend in the packaging industry. It is gaining importance in many regions as it is environment friendly and cost-effective.

According to Market Research Report, global paper and paperboard container and packaging market is to grow at a CAGR of 6.5% over the period 2014-2019.

Within the paper and paperboard packaging, important sub-segments which are going to see better days ahead are folding carton packaging, release liners, corrugated board packaging, liquid paperboard packaging, food contact paper and board, etc

The folding carton products represent the most important material used for the packaging of goods, which is a US\$312 billion industry (2012 data), with 26% of market share. It is followed by flexible packaging (21%) and plastics (13%).The main sector where folding cartons are used is for the food and beverage industry, which uses 64% of the production.

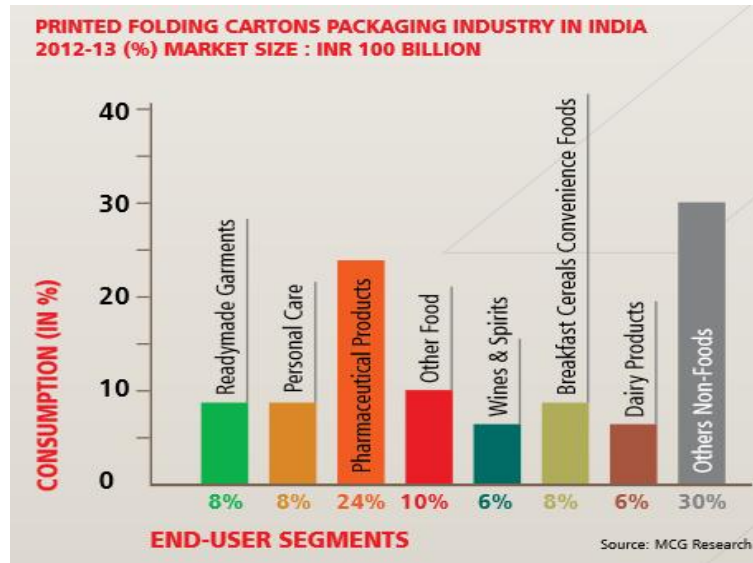
FIGURE E.3 Top ten end-use markets for folding carton, 2014, volume



Source: Smithers Pira

Beverage represents 40% while food accounts for 24% of the market. The other main folding carton users are health care products (10%), tobacco (8%) and personal care (4%)

In India, folding cartons as a packaging material has gained prominence in the last two decades with the emergence of modern retail formats where visual appeal, shelf life and unique brand identity have taken the centre stage. Carton packaging offers all these advantages and more-it is consumer-friendly, provides excellent product protection, is lightweight, easy to transport & stack and easy to dispose of. With increasing consumer awareness and focus on 'green packaging', folding carton is gaining ground in the packaging industry.



Source: MCG Research

The Indian paperboard packaging industry accounted for around 21% of the total consumer packaging market that was valued at INR 472 billion in 2012-13. Paperboard packaging, valued at INR 100 billion, is forecast to grow at 11.4% per annum over the next five years.

Emerging trends in the folding carton Industry

Going forward we expect smaller players to get marginalized and larger players like TCPL Packaging to gain higher market share as the entire supply chain in the market faces ever-growing pressure from its customer base to come up with innovative techniques, processes and designs to enable the sometimes fickle brand owners to differentiate their products on the highly competitive supermarket shelf. Consequently, converters and printers are facing a need for on-going investment in new printing technology that offers more colors and more impactful finishing techniques such as hot-foiling, embossing, spot varnishing and the like.

There are a few major trends that are driving the steady growth of folding cartons worldwide. They are:

Consolidation and automation – As per Doug Herr, director of sales, Folding Carton for Bobst North America Inc., there will continue to be consolidation and a move toward improving efficiencies, whether through higher run speeds or quicker change-over times. There's a continuous move towards automation of quality control.

Increasing demand for packaged food and beverages globally – With the increase in consumer income in countries such as China, India, and Brazil, the demand for good-quality packaged food is also increasing. Moreover, the increase in the population in many countries has led to increased consumption of food and beverages, which is also leading to an increase in demand. Moreover, this high demand for food and beverages has led to an increase in the demand for packaging solutions and products, which include folding cartons. According to the analysis, the Food and Beverage end-user segment accounted for almost 40 percent of the global folding carton market in 2014, which signifies the impact it can have on the demand. Packaged food and beverage companies are demanding an increased variety of folding cartons with unique designs that meet the increased production requirements and help create product differentiation. Thus, the increase in the demand for packaged food products and beverages is driving the sales of the folding cartons used in packaging food and beverages.

Product-driven to Service-driven – As per some of the industry analysts, folding carton industry is moving from product-driven to service-driven, helping consumer goods manufacturers to enhance the products' image. This makes sense when knowing that about 70% of the purchase decisions are made in the store. Even the secondary packaging is more frequently used to help the products' visibility on the shelves.

Technological changes – Three key technologies that will result in added value in the folding carton market between 2013 and 2018 are retail-ready packs (mainly in micro flute), anti-counterfeit systems and barrier coating technologies. Retail-ready packaging is a growing trend amongst retailers striving to reduce their costs and comes in the form of corrugated/micro flute systems, rigid plastic and some rigid board products.

Anti-counterfeit technology used in folding carton applications is expected to almost double with high growth expected, especially in the health care sector. Developments in water-based coatings, nano-materials, bio-polymers and antimicrobial compounds are leading the growth for barrier coatings.

According to Smithers Pira, a global trend towards smaller packs will be offset by an increase in demand for single serve portion packs. Smaller packs tend to use more total packaging material than the larger packs they replace, for the same volume of packed product.

The need for continual brand differentiation in the crowded marketplace is the impetus of growing demand for innovation in printing methods, with an increase in such technologies as QR codes, holographic images, Fresnel lenses and other 3D devices. The technological developments in printed electronics are bringing the development of smart packaging closer to fruition as costs are decreasing.

Management

TCPL was promoted by Kanoria family in late 80s with Mr. Saket Kanoria at the helm of the affairs and he continues to be the Managing Director of the company. Other members of the family are also involved in the key operations of the company. Other key executives like Mr. S. G. Nanavati and Mr. Sujoy Ghosh have been associated with the company for more than a decade now.

The promoters own 58.42% stake in the company and increased stake marginally in Sep'14 through open market purchases.

Overall, company's disclosures policies, remuneration to the promoters and related party transactions are within reasonable range and we haven't found any major issues in terms of corporate governance.

As we will notice in the financial performance section, the management has also done a fine job of maintaining reasonable growth, profitability and has been rationale with capital

allocation decisions. The management has also been able to continuously reduce client and segment concentration and is one of the leading companies in the business.

Shareholding pattern

	Jun'15	Mar'15	Dec'14	Sep'14	Jun'14
Promoter and Promoter Group	58.42%	58.42%	58.42%	58.42%	57.76%
India	58.42%	58.42%	58.42%	58.42%	57.76%
Foreign					
Public	41.58%	41.58%	41.58%	41.58%	42.24%
Institutions	0.04%	0.04%	0.04%	0.04%	0.04%
FII					
DII	0.04%	0.04%	0.04%	0.04%	0.04%
Non-Institutions	41.54%	41.54%	41.54%	41.54%	42.20%
Bodies Corporate	12.14%	12.34%	13.34%	13.47%	13.25%
Custodians	--	--		--	--
Total	87,00,000	87,00,000	87,00,000	87,00,000	87,00,000

From a passive investor's perspective it's important for the ones running the company to have high ownership as it aligns their interest in line with those of minority shareholders and in the case of TCPL Packaging the promoters own reasonably good stake at 58.42%. Further, last year in Sep'14 quarter promoters increased their stake marginally from 57.76% to 58.42%.

As on 30th Jun'15, the major shareholders of the company and their stakes are as below:

Name of the shareholder	Category	% stake in TCPL Packaging
Promoters and PAC	Promoters	58.42%
Spice Commerce & Trade	Public	8.95%
Anil Kumar Goel	Public	8.52%
Molecular Trading & Mercantile	Public	1.67%
Vijay Kishanlal Kedia	Public	1.38%

TCPL Packaging – Performance Snapshot

We believe, if both the business and the management are good it should reflect in the operating and financial performance of the company. If the financial performance has consistently been poor with no visible signs of improvement, then either the business or the management or rather both are not good.

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Income from operations	100.86	119.66	159.38	188.48	240.21	283.34	373.29	394.92	497.84
Total Cost of Goods sold	53.93	63.28	85.99	105.86	136.67	159.49	216.71	226.70	280.07
Gross profit	46.93	56.38	73.39	82.62	103.54	123.85	156.58	168.22	217.77
Gross Profit margin (%)	46.53%	47.12%	46.05%	43.83%	43.10%	43.71%	41.95%	42.60%	43.74%
EBITDA	14.67	17.23	23.81	27.42	34.78	44.85	55.80	61.18	81.99
EBITDA margin (%)	14.54%	14.40%	14.94%	14.55%	14.48%	15.83%	14.95%	15.49%	16.47%
Foreign exchange effect on borrowing			-0.5	-0.85	-0.62	-3.53	-0.14		
Depreciation	-6.62	-8.17	-11.14	-12.09	-14.63	-17.97	-20.35	-23.79	-21.67
Interest	-4.23	-5.44	-7.29	-6.63	-9.84	-11.96	-14.95	-17.66	-17.29
PBT	3.82	3.62	4.88	7.85	9.69	11.39	20.35	19.73	43.03
PAT	3.09	2.92	3.47	5.37	6.29	7.70	13.51	12.5	32.18
ROAE	9.93%	7.34%	7.30%	10.56%	11.13%	12.13%	18.62%	15.07%	33.56%
Cash flows from operations	6.29	5.45	7.36	12.96	17.20	20.85	8.99	37.74	52.1
Debt to Equity ratio	1.24	1.37	1.36	1.43	1.33	1.63	1.58	1.59	1.37
Net debt	40.74	63.71	65.92	76.22	79.28	109.61	123.5	140.1	156.38

As far as TCPL is concerned, as can be observed from the above 9 years performance snapshot, TCPL has a good and consistently improving record of financial performance.

The following observations about the performance of the company can be made from the above snapshot:

- Over the last 9 years the sales of the company have grown at a rate of 22.5% CAGR while during the last 5 years the sales have grown at a rate of 21% CAGR. For the same period the average industry growth rate has been ~11%-13%.

- Despite wide variations in the prices of the raw materials, the company has been very consistent in terms of maintenance of gross margins at around 43% which is indicative of the fact that sooner or later the company is able to transfer the increase in pricing to its customers.
- Similarly, on the operating cost front, there's been a steady improvement with the EBITDA margins improving from 14.5% to 16.5%. EBITDA has grown at 24% CAGR over the last 9 years and 5 years.
- While the growth in Sales and EBITDA has been ~20%+ CAGR, the growth in depreciation and interest charges has been lower indicating better utilization of incremental capital employed and as a result before tax profitability has grown at much higher rate.
- During the last 9 years the capital employed in the business has grown at a rate of 16.5% CAGR and similar has been the rate for the last 5 years as well while the sales have grown at 20% +. With improvement in asset utilization ratios, the return on average equity has also consistently inched up and has improved from 12-15% to 30% in FY 15.
- While the net debt of the company has increased from around 40 crores to 160 crores, the overall leverage on the balance sheet hasn't increased with debt equity ratio in the range of 1-1.5 at all times.

The company recently inaugurated a new plant at Guwahati and the same got commissioned in Mar'15. Considering the commissioning of new plant at new location and gradual increase in capacity utilization, we don't foresee major CAPEX for the next 18-24 months. Also, with very strong operating cash flows, management may consider reduction in debt.

Overall, the financial performance of the company has been good in terms of growth, profitability, return ratios and cash flows from operations.

What's the way ahead? As discussed in the above sections, the overall packaging industry in India is expected to grow at 12-14% on account of both domestic growth opportunities and the gradual shift of the industry from North America and Europe towards Asia.

Further, there are several emerging trends and technological changes that are pointing towards the marginalization of smaller players and growing share of bigger players like TCPL Packaging. Packaging is gradually transforming from being a product driven industry to a service driven industry and at the same time customers are demanding innovative techniques, processes and designs and this is where TCPL has an edge over other smaller companies.

We therefore expect TCPL to maintain 17-20% + growth rate over the longer run on account of the factors discussed above. Further, considering the fact that company recently commissioned a new plant and there may not be substantial CAPEX, improvement in utilization ratios can lead to further improvement in profitability.

Dividend Policy

Dividend Payout ratio					
	FY 11	FY 12	FY 13	FY 14	FY 15
Dividend Payout ratio	23.15%	26.24%	19.97%	20.35%	19.52%

As can be observed above, the company has been consistently paying out ~20% of its profits in the form of dividends and considering decent cash flows and high promoter holding, we expect the company to maintain similar level of dividend payout.

We believe the dividend policy of the company is well balanced in terms of sharing profits with the shareholders and retaining the balance for future growth.

Valuations

As discussed in the preceding sections, TCPL packaging is involved an easy to understand and essential business of packaging. The company has a reasonably transparent and rationale management at the helm of the affairs which has consistently delivered 20% + growth in sales and profitability and has been rationale with capital allocation.

The industry seems poised for decent growth over the foreseeable future and the marginalization of smaller players is likely to work in favour of companies like TCPL Packaging.

Coming back to valuations, at around current price, the market capitalization of the company is 427 crores. The company has net debt of ~170 crores and therefore the enterprise value is ~600 crores.

The company has reported trailing twelve months (TTM) pre-tax earnings of 45 crores while the TTM EBIT is 63.35 crores. Thus, the stock is available at ~9.5 times pre-tax earnings and similarly the EV/EBIT ratio is also 9.5 and we therefore believe that the valuations of the company are reasonable around current levels.

It is important to note here that in the past PE investors have invested in companies like Parksons Packaging, IPP, etc and the valuations at which the transactions happened were much higher at 20-25 times earnings and more, however another important fact is that such transactions took place in 2006-07 and the valuations in general were really high in those years.

Risks & Concerns

Packaging is a highly competitive segment with several unorganized players and significant capacity. Though there's client stickiness in the business, overcapacity in the segment can limit the bargaining power of TCPL Packaging.

Technological changes or changes in trends with respect to packaging solutions/materials can have a long term impact on the business of TCPL.

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