TCPL packaging limited

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16.08.2022

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Phiroze Jeejeebhoy Towers,
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 Investors Conference call

Please find enclosed the transcript of Conference call held on 12.08.2022, 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: 2022.08.16 16:07:16 +05'30'

Compliance Officer

TCPL Packaging Limited
Q1 FY23 Earnings Conference Call Transcript
August 12, 2022

Moderator: Ladies and gentlemen, good day and welcome to the earnings conference call of TCPL Packaging Limited. 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 ma'am.

Jenny Rose: Good morning, everyone and thank you for joining us on TCPL Packaging Q1 FY23 earnings conference call. We have with us today. Mr. Saket Kanoria, Managing Director; Mr. Akshay Kanoria, Executive Director; Mr. Vivek Dave GM Finance of the Company.

We would like to begin 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 Mr. Saket Kanoria to make his opening remark. Over to you sir.

Saket Kanoria: Thank you. Firstly, good morning, everyone and thanking you for joining us on this conference call for the first quarter ended June 30th, 2022.

We are extremely pleased to report that we have commenced the fiscal year 2023 on a very strong note, despite a continuously challenging macroeconomic environment. On a standalone basis, revenues have grown by almost 50% to INR 335 crore, led by better realizations and volumes. EBITDA has also improved by 76% to INR 53 crore translating into a margin of around 16%. So while we continue to witness volatility in raw material prices, we were able to mitigate the impact by our strong focus on innovation and improvement in productivity and maintain our margins. Profit after tax and cash profit stood at INR 23 crore and INR 47 crore respectively during the quarter. While on a consolidated basis, revenues have grown almost 52% to INR 342 crore and with corresponding increases in EBITDA and PAT.

In key development, TCPL Innofilms Private Limited, the Company's wholly own subsidiary commence its commercial production in July 2022. As we have shared in the past, this film is based on a Machine Direction Orientation (MDO) technology, which will be environment friendly, enabling the production of recyclable packaging. At present most flexible packaging is made of multiple polymers, making it non-recyclable. However, TCPL, by using the films produced at TCPL Innofilms aims to convert some of the current packaging to single polymer-based packaging, while still satisfying all barrier and functional requirements of customers, aiding in the transition to recyclable packaging.

Furthermore, with India's ban on single use plastic, we are clearly moving towards eco-friendly policies to accelerate the green transition in our country. We believe we are fully equipped and will proactively drive the development of this sustainable flexible packaging solution. Overall TCPL is well positioned to cater to the growing demand for sustainable packaging solutions from leading brand and continues to support effort towards facilitating a waste free world.

To conclude, we have always been a growth-oriented Company and our strategy of expanding our presence to multiple sectors has enabled us to consistently outperform our underlying industries over the years. And, I take pride in saying that we are one of the few listed companies in India who have grown each year, every year for the past 30 years with a revenue PAT CAGR of 20% and 27%, respectively. Similarly, we remain committed to sustainably growing the Company in the future as well, which should help create value for all stakeholders.

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

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: Congratulations for a good set of results. There has been a lot of saying that plastic packaging being replaced by paper packaging and have you recently in our business segment there has been a change in here. Like if you can provide any quantum or any segments where it is really happening, like how big is the single use plastic ban for our business segment? Like for instance, we can see paper stores being replaced by plastic, but how big is it in numbers that we are seeing, right now in India at least where plastic packaging is being replaced by paper packaging?

Saket Kanoria: So plastic ban is on single use plastic, like for example, cups, straws and paper plate, plastic plate, etc. It is not part of the general industrial packaging yet. So I will not be able to quantify the value, how it affects our business, but what we are talking about is the move towards recyclable plastic packaging, which is a very big area of growth because currently as I mentioned that it is, most of the packaging is non-recyclable and that is very challenging to sustain. So there is a big opportunity to move towards recyclable and some plastic packaging is currently under development to move to paper-based packaging for things like wrappers in chocolate products, etc. But these are not yet fully, let us say technically approved and they are in various stages of development.

Akshay Kanoria: If I can come in here, just to clarify further, basically there is a barrier requirement that plastic fulfills, which paper in some cases cannot. So in those areas, like let us say your chips packets or your shampoo packets and those kind of sachets, over there the effort is rather than switching from plastic to paper is on how to make the plastic itself eco-friendly or recyclable. So that is what we are addressing with TCPL Innofilms. Secondly, where one can replace plastic with paper while still maintaining the good quality of barrier and protection and everything that the product needs, there that shift is very much happening. But a little bit of it is also going to be pushed by Government regulation and stuff because moving from plastic to paper involves a cost. So, in India the shift is happening but slowly. And then there's items where, like in disposables and takeaways and your delivery packaging, those kind of things where people are moving from plastic to paper, one, because of Government regulation and two, because of consumer preference. So over there to quantify is very difficult, but I mean, if you look at the kind of volume growth in the paper industry in the last couple of years, it is quite substantial. So that is mostly coming out of this kind of secular shift from plastic to paper.

Gunjan Kabra: Okay. And also, regarding a flexible packaging, I think we just commenced in July. So what is the plan for the ramp up this year maybe in this division, this quarter, and this year?

Saket Kanoria: So the flexible packaging was expanded, the conversion part of it in March and that is now ramping up and we feel that this year we will have a very high rate of growth in that line because we have doubled the capacity. So already month-on-month we are seeing big jump in revenue.

Gunjan Kabra: Okay. And sir, what about the Creative Offset plant, is it, what capacity utilization is that plant operating at right now and what is the plan for the current year ramp up?

Akshay Kanoria: Here to give a capacity utilization number is a little difficult because it is very subjective based on the quality of product, a making like the same box can go for INR 100 or INR 50. I mean, it is the same capacity at the end of the day on the machine. So we do not have a capacity utilization figure as such, but as of now it is not ramped up to a desirable extent, because the mobile market in India has been a bit rocky in the last six months. However, we are seeing some improvement in the current quarter and subsequent quarters. And we have also broken into new customers in the electronic space.

Saket Kanoria: Overall. I would say that it is only at 50% of its potential.

Akshay Kanoria: Yes.

Gunjan Kabra: Okay. And what can we expect? Like what levels can it go this year maybe?

Saket Kanoria: By the end of the year, I think, it will be definitely much higher, but it also depends on how the market evolves for the electronic business. Because of the inflation, the demand, and as there is a shortage of components as well, so these mobile phone itself is not doing that well. I am talking as a business as a whole, I expect it to improve now. I think the worst is behind us.

Moderator: The next question is from the line of Pavan Kumar from Ratna Traya.

Pavan Kumar: What would be our capacity utilization on the paper packaging facility, and excluding Creative as of now and, what would be the capacity utilization on the flexible packaging side?

Saket Kanoria: So, the capacity utilization in the carton is around 80% in this quarter and in the flexible we have recently doubled the capacity, so it is in the 50 to 60% range.

Pavan Kumar: Okay. This is including the new capacity you are saying it is in the 50 - 60% range.

Saket Kanoria: Because new capacity was commercialized in March this year.

Pavan Kumar: Right. I got it. And what would be the broad breakup of revenue between the two segments as of now?

Saket Kanoria: We have mentioned in our presentation that the flexible is contributing between 10 and 15% of the overall.

Pavan Kumar: Okay. And what would be our capex pathway going forward, since in cartons we have already reached 80% utilization?

Saket Kanoria: So currently we have already ordered one new line, which will be coming in January, so that will add capacity and we also debottled it in existing, so we expect to effectively grow our capacity by almost 10 to 15% for next financial year.

Pavan Kumar: Okay. And what would be the capex from this whole debottlenecking exercise and increase in capacity as of now?

Saket Kanoria: So right now the capex plans are not very aggressive this year, going next year, so I will not be able to give you a specific figure, but the point is that right now there is no major plan apart from this one line, which will come later in the year. And for next year we are still evaluating the plan.

Pavan Kumar: And this new line you are saying can add around 10 to 15% of extra capacity on the carton side?

Saket Kanoria: On the overall basis.

Akshay Kanoria: Regarding the cotton side the capex plan for us, the thing is that we do not have to be very rigid or anything on the plan because we mostly have to do just Brownfield capex, so it's a very much opportunistic sort of thing that whenever we need, we can plug in a new line without too much of a hassle or a very long sort of lead time. So over there we are a bit more flexible right now. Even now on the flexible packaging by the way because we have added so much room in our plant with the expansion there is we went dynamic. So, it depends on the market situation if we are doing well and we are consistently at a good level of utilization for a reasonable couple of quarters, then we can immediately increase the capacity quickly. And that will also be bit better on the return because Brownfield is inherently much more remunerative.

Pavan Kumar: Okay. And on the new line broadly, how much would we spend any indication?

Akshay Kanoria: So as a total the capex plan for this year is about INR 80 crore odd, but that can go up or down slightly, but that includes the new line and some other finishing equipment, as well as a few finishing capex of the last year's spillover. So all that put together.

Pavan Kumar: Okay. And this is a much broader question. So on the carton side of the business, what is the naturally growth rate that we should expect in the industry and for the TCPL, I mean, in the sense, what are your expectations of what can be the growth?

Saket Kanoria: Currently you must be tracking FMCG Company volume growth is single digit. I mean, they have gone through a harrowing time with this big price-led inflation. So the natural growth of the industry as a whole is only single digit in volume terms. But in value, they are definitely adding value; they are premiumizing, they are bringing new products. So the value opportunity is double digit. So when we look at our sales, our underlying is early low double digit, and then we are adding new segments, new customers, etc. So, our expectation is of maintaining our historical growth rate. And that is the kind of targets that we take.

Pavan Kumar: And the historical growth rates would be around 15%?

Saket Kanoria: 17 - 18% over the many years.

Akshay Kanoria: Basically, if you see the last 4 - 5 years the FMCG industry volume growth has been very low single digit, and there has been one headwind another for the last several years, which has hurt the industry growth, despite that we have maintained a high double-digit sort of average growth of between 15 and 20% a year. So considering the last 2 years, though the industry underperformed, we are still performed. We expect that once the industry performance picks up, then our performance should easily be able to be maintained at this level.

Pavan Kumar: Okay, great. And one last book bookkeeping question. Since, Innofilms has been the commercialized this particular quarter, what is the extra amount of depreciation that might come in?

Saket Kanoria: Depreciation of Innofilms, I would say annualized will be not more than INR 2 - 2.2 crore a year.

Pavan Kumar: Oh, that is it?

Saket Kanoria: Yes because the investment is about INR 35 crore.

Pavan Kumar: So for Innofilms depreciation, that is the incremental depreciation apart from whatever is the current depreciation that is going to come into the books.

Saket Kanoria: No, but this is in Innofilms, not in TCPL.

Moderator: The next question is from the line of Ashutosh Garud from Ambit PMS.

Ashutosh Garud: I wanted to understand the nature of the borrowing, the nature of the debt on your balance sheet and what is the path ahead for this? Are there any plans to reduce this debt on your balance sheet and what is the nature of this borrowings because it has been consistently, slightly on the higher side, although the debt equity has been reducing, so if you can share some insights?

Akshay Kanoria: So, your question has the answer that the debt equity has been reducing. I mean, we have to compare it in our ratio only, we cannot look at absolute amounts. And so nature of borrowing means we have two types of borrowing, one is working capital debt, which is directly proportionate to the revenue and working capital requirement. And the second is the term debt, which is mainly used for financing capex plans, and our capex plans over the past 5 years have been very moderate. So the term debt has been, in a percentage form has reduced and hence, the debt equity has reduced. Working capital is pretty linear, so that has been growing with the growth in the revenue. But having said that with this big growth in the current quarter, the debt has not gone up anywhere near that same proportion. So, in fact, we have improved our ratios at the end of this first quarter further from what it was earlier.

Ashutosh Garud: So what could be the debt equity target, let us say 3 years down the line for us and are there any targets let us say 3 to 4 years.

Akshay Kanoria: So our debt equity, if you talk of term debt-to equity it is less than 0.7. And if you look at total debt-to-equity is about 1:2. So I think, the target is, I think we are comfortably placed and in fact, this will improve to probably 1:1 from 1:2.

Moderator: The next question is from the line of Sanjay Manyal from ICICI Securities.

Sanjay Manyal: I have just few questions. One is on the margin side, despite there have been quite a bit heavy headwinds in the commodity inflation, the margins have moved up. Now I believe this is largely due to the operating leverage, but how we see, how we should see the next few quarters where the base effect will not be that, means the base effect will not be there. And will we get that operating leverage benefit next few quarters also or do you think that this inflation is going to hurt us some of the other way next few quarters?

Saket Kanoria: So last two quarters, in fact, we have seen the worst of the commodity inflation. In fact, now it is kind of flattening out, I would say, although some commodities are still; broadly they are declining, but some raw materials are still going up. So this volatility continues, it is not like pre-COVID level. And if you look at our margin, there has been a significant improvement from the previous time, this is also partly led by much higher utilization of capacity that also has contributed to a higher margin. It is mostly that, and actually the raw material pricing increase or decrease is largely being passed on to customers. So if we are operating at a higher-level capacity, then I do feel that we should be able to maintain this level of margin.

Sanjay Manyal: Okay. And sir, is there any seasonality in our business, in the sense any one particular quarter is heavier where we get more of volumes, any particular quarter is lean is there any seasonality in our business?

Saket Kanoria: So, normally this quarter current, July to September is the highest volume quarter because of the festive season, which is around in this time, because we are starting with August Raksha Bhandhan, going up to Diwali, and the Q1 is normally the weakest quarter, but this time the Q1 was very positive for us and the Q2 is looking fine. So yes, I mean, there is seasonality, but there's not very massive swings. If you look at our past also, this second quarter helps us achieve a level and then we grow from that level.

Sanjay Manyal: Okay. And thirdly, sir, as you have already mentioned that the FMCG companies are looking at only a single digit kind of a volume growth, they have experienced single digit volume growth. So, where exactly that growth is coming, is it the new customers are we adding or any particular names, if you can mention, which customers we have added in last few quarters and how much is this new customer addition is contributing to the growth?

Saket Kanoria: Now the industry is changing very rapidly, and we see that these large FMCG companies, which are largely listed, whose results we track, and we see volume growth, but there is so many startups, so many smaller companies on the back of E-commerce and newer ways of selling, they are creating space for themselves. There are many regional companies which have come. So the overall market segment is very hard to track, like you take FMCG, traditionally, you would track Unilever or Nestle or something like that. But now there are so many different products and companies making highly fantastic quality output. So there is a lot of opportunity because they all want to differentiate themselves with better quality packaging. So there's lot of such opportunity, I would say. And because we are multi-locational and have the development and innovation capability, we are able to cash into many of these opportunities.

Akshay Kanoria: And also within the same set of customers we are seeing increase in our share of business and that is due to operational strength and quality and capability difference. And also, I think this sort of raw material volatility and everything, availability issues, et cetera, hence the stronger and more established and better managed players who are able to manage their working capital and the vendor and everything better that translates into better quality and better service. So that translates into more business. So it is a sort of virtual cycle for us. So a mix of the two things is sort of helping us. And specific naming of customers, we are publicly listed, so we answer a lot of questions, but our competition is entirely in the private sector. So we do not like to give too much information on these kind of things, although and so as an analyst you would require it, but yes.

Sanjay Manyal: No problem on that, sir. Then just last one question on the mobile packing business of you yours which you have acquired, what exactly is your plan over the next say 3 to 5 years period, how you see this business growing, what exactly is our internal target for this business?

Saket Kanoria: So right now we are at a very low revenue threshold there. And we see that we can quadruple our revenue from where we are today. And so we see a very big growth opportunity in that segment, and we are just scratching the surface currently.

Moderator: The next question is from the line of Vikas Joseph from Calpond Capital.

Vikas Joseph: I have two questions basically. So you are folding cartons business is currently 85 to 90%, while the flexible packaging is around 10 to 15%. So what is the, I want to know what is the EBIDTA margins across these two segments and what is the vision to grow the flexible packaging over the next 2 to 3 years. And also you recently started with the Innofilms as well as the Creative Offset and what kind of opportunity do you see and currently what is the contribution to their Company's revenue? And what is the opportunity you see from these two segments over the next 2 to 3?

Saket Kanoria: Thank you. Yes, so the EBIDTA margin specific figure we do not share between segment, but traditionally the carton business is higher margin. However, in inflexible we do a lot of innovation and specialized products, so there is a scope for improvement of EBIDTA margin there, and now with the recyclable packaging as well, those are value added products. Apart from that the asset turnover in the flexible business is much higher than in carton. So it kind of makes up with that. And the plan is that right now we have expanded it, we have doubled the capacity. So there's a, obviously a bigger growth opportunity there. And going forward once this stabilizes, we will look at further growth, but our carton business is more mature and hence, its has been a very strong growth as well. So while the flexible will grow, the carton is anyway growing, and focus is more on fiber based packaging. So it is far more sustainable. So there is a big opportunity on the carton site.

Vikas Joseph: And on Innofilms as well as the Creative Offset currently, what is that contribution, sir?

Saket Kanoria: Creative I have already answered opportunity and Innofilms as well, I just, I mean, I do not understand what your question on Innofilms is.

Vikas Joseph: Currently I wanted to understand what is the contribution of this new division to your overall sales?

Saket Kanoria: We have just started it in July, so there is almost no contribution. Now this will start, it just started commercial production in the last one month in July.

Vikas Joseph: No, I wanted to understand what it can grow into in the next 2 to 3 years, considering that it is recyclable packaging?

Akshay Kanoria: Basically in this Innofilms, the capacity of this full plant, what we have put, if you say as a percentage of the overall flexible packaging market, it is not even, I think 1% maybe it will not be. So that way if even one of our FMCG customers, which is to this recyclable packaging for even one of their brands, this line can get booked out. So we have long way to go, and we are just scratching the surface. And there is a huge scope because basically this entire FMCG industry or food industry, the entire packaging, at least the primary packaging is flexible packaging. And almost all of that is not recyclable. So obviously we are not looking to change the entire industry, but we, because that is just a long way to go. So we are experimenting with various different products and brands, and we will see what we are successful with, but basically, we do not need to transform the face of the industry with this. I mean, there is a long runway for growth here.

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

Nirav Savai: I have just a couple of questions. Now we have already doubled our flexible packaging capacity. So what is the plan for next 2 to 3 years, so the expansion side, would we continue to expand on the flexible packaging side or in the folding carton side? How do we see the expansion going on over next 2 to 3 years?

Akshay Kanoria: I had touched upon this a little bit before but basically in the carton segment, we do not really need to do any much Greenfield unless there is a huge sort of volume growth and we are not able to sustain it from the existing plants, but we have reasonable amount of footprint. And for us to add capacity is not very challenging in the carton side. In the flexible packaging side as well it is a similar story now with the new addition to the plant area and everything that we have done for us to add capacity increment is not too challenging. And we can, we are good for a while in terms of capacity, in terms of space, in terms of actual adding of capacity, that will be very much dependent on the utilization level, how quickly we can ramp up and how satisfied we are with the quality of the margins and everything that we are getting. So we do not really have a firm plan, but it is an opportunistic capex.

Nirav Savai: Okay. Right. So any capex which we outlined for this year and the next year?

Akshay Kanoria: So that also I have answered a little earlier, that is about INR 80 crore odd we have budgeted for this year. Next year we have not, as I said, we have not planned yet because we do not really need to until later in the year.

Nirav Savai: Right. Sir, on the margin side, this quarter margins were about 15 - 15.9% and as you rightly said that you were able to pass it on prices and despite the inflationary concerns, we have been reporting consistent margins. So is there any inventory gain, which has come in picture maybe in the last couple of quarters, which was not there before or how do we read this, are these sustainable margins?

Saket Kanoria: The inventory gain is nothing significant. So I do not, that is not like a onetime kind of thing. These are normalized margins only.

Nirav Savai: Okay, so this is something which is sustainable, 15 and a half to about 16% kind of margins, but this higher utilizations, which will continue on the folding carton side.

Saket Kanoria: Yes.

Nirav Savai: And sir, lastly of this Innofilms business, is this purely for a backward integration or would we be selling it directly on the export side? So how is the plan when it is still at a very early stage, but how do we look at this part of the business for the next 2 to 3 years?

Saket Kanoria: So this is a very good question. And this Innofilms is a technologically challenging material and which we have been able to kind of overcome. So it is also a backward integration as well as an opportunity and also, we will look to sell the film particularly for export. So we, that is why it is a separate profit center because it is a distinct Company. And therefore, we would like to track the Company's progress and performance independent of TCPL. I mean, I would say that while TCPL would be a customer for Innofilms, but they are open to sell in the market as well.

Nirav Savai: So open to both things. And sir, any number, which you can just help us out with this new business, which we had acquired in terms of the potential revenue with the current capacity, rigid packaging business. Yes.

Saket Kanoria: I think I already mentioned earlier in the call that there is a very big, strong growth potential there. Currently it is in a very low revenue, we are looking at a three-digit revenue over the next few years.

Moderator: The next question is from the line of Vipul Shah from RW Equity.

Vipul Shah: Firstly, sir congratulations on a very solid and sustainable set of numbers looking at your opening remarks, where you mentioned about the general inflationary trends being high and volatility being high, I think, it is more than credible the way the management has managed the business. So hearty, congratulations, sir, to you.

Saket Kanoria: Thank you so much.

Vipul Shah: Sir, most of my questions have been answered. You mentioned that the gross margins are probably sustainable at these levels. You also, I believe mentioned that the current level of sales is, the aspiration is always to grow which we have done for the last 30 years also there is no challenge. So the only surprise, to me was that from March to June, I believe our debt has come off by INR 50 - 60 crore despite the sales being a little high, higher than March. So is that due to shrinkage of working capital?

Saket Kanoria: How you get this figure that the debt has come off?

Vipul Shah: Sir, in your presentation you mentioned for March it is INR 400 crore net debt and for June it is INR 350 crore sort of net debt. So that is why I am mentioning, it is your presentation? Slide 23 of June, sir and slide 21 of March presentation.

Saket Kanoria: This is more to do with the working capital. Sometimes there is acceptances, LCs, and sometimes it is through cash credit. So overall position does not change so dramatically.

Vipul Shah: And earlier sir, we used to mention that the Innofilms subsidiary was primarily looked at as a captive sort of plant for our flexible business. Right now I heard you mentioned that we are open to actually looking at outside customers as well. So just one question, sir, the margins on flexible if we use the Innofilms, obviously the idea would be to tap into the premium sort of segment of the market, customers and who can pay for this recyclable films, so will it be fair to assume that the margins will be substantially higher than our normal margins in this current business?

Saket Kanoria: Innofilms, I mean, obviously the focus will be to sell in house only, not that we will sell outside and suffer in house, which is not the question. Our internal requirement is obviously prime priority, but having said that if we have opportunity outside and we have capacity, and as I mentioned earlier in the call that it'll be focused on export where we can hope to get better realization, then we don't see any reason why we shouldn't sell that because for selling the laminate to export, it's not possible in all geographies, it depends on the type of product because of the lead time, because of when you print, then you need the artwork and you need to synchronize it. Whereas, when you are selling film, then somebody can print on it in that country to shorten the lead time. So that would be the strategy.

Vipul Shah: Got it, sir. Again a phenomenal set of numbers and congratulations to you and wish you all the best for the future.

Moderator: The next question is from the line of Dharma Venkateshan an individual investor.

Dharma Venkateshan: Congratulations on a very good, very, very good set of numbers, actually in the first place. Most of my question been answered. I've just one question, are we looking at any other inorganic opportunities in the coming years or any plans for it?

Saket Kanoria: Inorganic, if I get you right, you are talking about whether we have any plans for any inorganic opportunity?

Dharma Venkateshan: Yes, sir.

Saket Kanoria: The inorganic opportunities always there, but currently we have our hands full, and we are already invested in this Creative and Innofilms and we have recently expanded capacity in the flexible, so we are very focused first to make sure that these initiatives live up to their potential. But of course, if some other good, very good inorganic opportunity comes at a good valuation and it fits into our strategy, we are always open to that. But as of now, there is nothing, which is ongoing or being studied in too much detail.

Dharma Venkateshan: Okay, sir. Got it. And more question, if we look at our manufacturing present, we are present on almost like spread across India, like Guwahati, Delhi and on the west coast, we do not have any manufacturing facilities set up on the east coast of India. So is there any reason we are not going there or what exactly is the thought process?

Saket Kanoria: We are using the eastern belt from Guwahati and east coast of India, yes, we do not have anything yet. But we have to see where the market is and then accordingly decide, but there is an opportunity down south in the future, we would look at it.

Dharma Venkateshan: Okay, sir. So as I understand right now, the opportunities are not massive enough to put up a separate plant are servicing it through Guwahati.

Saket Kanoria: No, I am not saying that not massive enough, but I mean, okay, there's opportunities everywhere, but we are the kind of customers and the segments we are servicing, we have not seen any reason to look at some other geographic location yet.

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

Pulkit Singhal: Congrats on an excellent set of numbers. My first question is on the margin band, if I see historically, back between 2010 to 15 or 16 you used to operate in a 15 to 17% kind of margin band. Then obviously that came down and in between we were at 13 to 15% odd, now given the situation that you see in the market where you might be gaining market share from some smaller unorganized players, you are seeing certain growth aspects in exports and various other things. I mean, you have already delivered now 16% kind of margins, which is despite your flexible new line, not having being optimally utilized and despite the mobile packaging also not at its optimal level. So do you think that you can operate at a higher band of margins now versus closer to what you were in the past?

Saket Kanoria: So right now thank you firstly, for your observation and yes, I mean, this margin hasn't been due to so many other income or some nonstandard revenue and so therefore we feel confident that we should be able to maintain this elevated ratio and as I mentioned earlier in the call it's also the higher capacity utilization and you are absolutely right that the Creative and the flexible utilization is lower and therefore, is a drag. And as that improves the overall margin should, in fact, further increase only. So I do not see any reason we should face a declining margin and we are hopeful that we can maintain.

Pulkit Singhal: Understood. And secondly, I think one of the things which is probably less appreciated is how well you have done in exports as a driver over the last 5 - 7 years. It has clearly kind of grown more than 25% CAGR over the last 3 - 4 years. And now it is at a substantial one quarter; I mean almost 25% of your business. So if you could, because it is less tracked, it's lesser known about, I mean, if you can talk about what kind of growth prospects one can expect from this vertical over next 2 - 3 and what are the some of these underlying drivers if you could talk about any new customers, you've added and what was the reason for them to shift to TCPL? Is there, I mean, if there is a China plus one or lower costing, whatever be the underlying trends, I am not entirely sure, but if you could discuss some of those?

Saket Kanoria: So yes, I think your observation is again spot on, export has been a very big silver lining in our performance and that has led us to, in fact, open another subsidiary in the Middle East. We have now got a marketing office there and the focus is to look at Middle East and Africa. We have strengthened our export marketing in, out of our Mumbai office which focus on US and Europe.

So all these areas we feel that there is still lot of untapped potential and there is a big scope further to continue this growth because the Western world after COVID looking at opportunities outside China. And certainly we are not yet anywhere close to where China is in terms of the whole ecosystem. But everyone is being too dependent, but I would not say that we have got benefit of a China plus one get, but we feel that we should be able to get going forward, but a lot of potential is there, so there's big focus and I think we can grow, and this is across segments, both carton and flexible as equal opportunity to cash in on this.

Pulkit Singhal: Right. So, let us say even if we talk about just the growth in the last six months, let us say in exports, is it more from existing customers this growing on new customer edition and why would a new customer wanted to come to TCPL, I mean, what drove them to kind of work with you.

Saket Kanoria: Well, we have new customer as well and existing customer also. So it is a bit of both, but a lot of new customer has, in fact, been added. And I mean, it is also to do with our reach why they are looking at us, I mean, we are focusing there. So we are contacting and meeting many potential customers on a daily basis. And then something transforms into actual business. And plus there's innovation also in certain areas where we have, there is a replacement for plastic when it comes to fiber-based packaging and that has also given us some additional business.

Akshay Kanoria: One more thing is there is a lot of focus now on India as a geography because when our customers abroad look at the world where they can source from and where they can rely on supplier from, earlier, it was always China, China, China and people didn't really look apart from China and otherwise local suppliers. Now, I think people are really focusing and seeing India as a potential opportunity. And there is an increase in the respect for our quality and service. Where earlier there was a lot of skepticism whether Indian companies can deliver and today there is no such apprehension, I think from most customers. And then if you look at the political stability, you look at the sort of price stability, the supply stability, all of these things, we as a country not only against China, but also against local competitors in the regions where our customers are based because they are not able to get their supply. And to some extent, even our lead time from India is beating their local lead times. So, yes, there is a big availability crisis, and it is not just in India, it is all over the world. So we are benefiting from that as well, and that will only continue and accelerate, I feel. So overall there is a very good potential, and this India story is just beginning. So, we are just one small subset of that whole story of Indian manufacturing and export.

Moderator: The next question is from the line of Vaibhav, an individual investor.

Vaibhav: Congratulation for the set of numbers. I wanted your view. So now with the entire inflation of raw materials in and everything happening in the cartons business. So you see going forward, there will be a solidation in this space where a lot of small offset presses that will start closing down. Is there this consolidation theme that will happen in this space?

Saket Kanoria: See the smaller packaging Company service customers close to them they are focused on those, so consolidation will happen, but it is a gradual process. There is, I do not think any very big, I mean, let us say in the last 5 years very limited acquisition and M&A has happened in this field, but yes, the smaller players continue to have a lot of pressure to maintain their growth opportunity.

Vaibhav: And what sort of asset turns we are looking out for in the rigid packaging business that we have acquired required from Creative Offset.

Saket Kanoria: I feel that we can do.

Vaibhav: Will it be higher than the current business asset turns that we are having?

Akshay Kanoria: So basically to increase the revenue substantially from here we do not really need to do any much capex further than what we have done so far. Okay. So I think once we, like in over the next 2 or 3 years that asset turn will certainly translate, and it should be better only than what we have currently. But it is not going to happen in the, very quickly or something because it is a relatively new investment, and the market is steadily picking up. So long term the future we see to be good over there, but it will take little time.

Vaibhav: Okay. But the asset turns would be better than the current business scenario, currently?

Saket Kanoria: It is an acquisition, so it is already coming with depreciation. High utilization.

Vaibhav: So for the rigid packaging business, have we tapped out all the positive clients or the process is ongoing, how would that we panning out?

Saket Kanoria: Yes. That is an ongoing effort.

Vaibhav: So, how is the situation looking, I mean, say 3 - 4-year perspective, where could the utilizations of this unit you pick up, will take your time?

Saket Kanoria: I do not think.

Akshay Kanoria: We've already answered this question, but basically this Indian electronics manufacturing story is just getting going. And as these production linked incentive schemes of the Government, as well as the general Indian competitiveness, all of that is the reason we have gotten into this segment because we were seeing this kind of growth happening. And we are very confident that that will translate now this 1 year or 2 years, okay, there's little bit of disruption. There is no chips, there is no component, inflation, all of that. But as that normalizes the general market is growing and manufacturing from India is growing. So there is a huge scope, and more and more brands are now setting up in India to manufacture, whereas earlier they were importing from China. So that will just increase over time. So that is what we've what we are targeting and banking on.

Vaibhav: And lastly on the raw material front these paper board prices that have almost doubled from the pre-COVID levels. So are these contracts with our client quarterly based or we pass it on as in when required?

Saket Kanoria: It depends on customer to customers, but basically there is a pass-through mechanism everywhere, and it is a matter of time before we pass through the increase or the decrease. So more or less our sort of contribution or margin or whatever is fairly consistent. And there maybe lag here and there, once, two months, three months max, but in general, we have a pass-through mechanism with all customers.

Moderator: The next question is a follow up from the line of Pavan Kumar from Ratna Traya.

Pavan Kumar: Sir, can you just give me the volume, what is the volume growth on a quarter-on-quarter basis.

Saket Kanoria: Volume growth number we do not share in a specific detail, but it is a high given that we have grown 50%, it is a very high figure.

Pavan Kumar: And since your carton business has grown pretty fantastically is there any particular segment that is driving the growth in FMCG or is it broad based?

Saket Kanoria: No, I would say it is quite broad based, because that you must remember that last year, first quarter was hit by second wave of COVID. So the basic text is quite significant.

Pavan Kumar: Okay. And did I hear it right that in Creative, if suppose the mobile demand is weak, can we use that for any other packaging kind of the facility or no?

Saket Kanoria: Yes, we are, in fact, supplementing, we have as carton plant in Haridwar, so we supplement that plant by the additional capacity in Creative. So that is an effort.

Akshay Kanoria: But generally this rigid box can be used in any luxury premium packaging and that is what we are targeting as well. And there is a good scope there as well. So whether it is sweets or perfume, all of these things there is a scope for us.

Saket Kanoria: And electronics apart from mobile.

Moderator: Thank you. Ladies and gentlemen, which was the last question for today. I now hand the conference over to the management for closing comment.

Saket Kanoria: Thank you so much everybody for joining on the call and sparing your valuable time. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the Company, please do feel free to contact our team or CDR India. Thank you once again for taking the time to join us on this call.
