TCPL Packaging Ltd

Proxy play to consumption

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Long Term Recommendation
TCPL Packaging Ltd.

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Proxy play to consumption

TCPL Packaging (TCPL) is one of India's largest folding carton manufacturers as well as a standalone paperboard converter. It has doubled capacity (at its Silvassa plant) in its flexible packaging division to cater to incremental demand. The management expects the folding carton and flexible packaging segment to grow 1.5–2x faster than the industry over FY23–25. It sees multi-fold growth (on a small base) in the rigid packaging segment. TCPL is one of the few Indian companies to clock ~17% revenue CAGR in the past 15 years. Strong industry tailwinds, newer capacities, and high-quality offerings will ensure continued growth. Over FY23–25, we expect a sales/EBITDA/PAT CAGR of 17%/17%/25%. We expect EBITDA margin to stay steady at 16% with the possibility of positive operating leverage. We initiate coverage with a 'BUY' rating and a TP of INR2,209, valuing the stock at 13x FY25E earnings.

CMP INR: 1,450

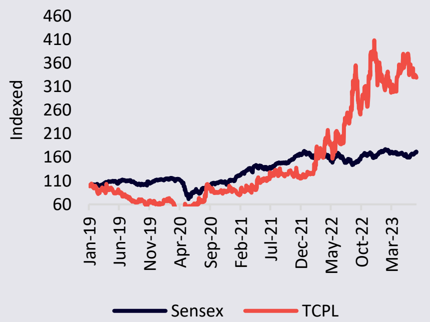
Rating: BUY

Target Price INR: 2,209

Upside: 52%

Date: July 11, 2023

Bloomberg:	TCPL:IN
52-week range (INR):	806/1,802
Share in issue (crore):	0.9
M-cap (INR cr):	1,320
Promoter holding (%)	55.74



Strong client base spanning multiple sectors

TCPL caters to a wide range of industries, including FMCG, tobacco, and liquor. Concentration of sales from the top three industries — FMCG, F&B, and tobacco — is high. While this signifies higher sector concentration, it is mitigated to an extent by its long-term association with clients and a reputed client base. From a single segment (tobacco) and client (Godfrey Phillips India), it now caters to more than 150 clients from multiple sectors in the folding carton segment. The FMCG and F&B industry contributes 55-60% to total revenue, followed by tobacco and pharma. In FY17, it forayed into the flexible packaging segment, thus diversifying its client base. Its top clients include HUL, Colgate, Mondelez, Nestle etc. It has been leveraging its long-standing relationships with marquee clients across industries to gain a higher wallet share. Consolidation of capacities in favour of environmentally friendly technologies is expected to lower competition. Being one of the larger players, with better technology and know-how, it is well poised to gain from this technology transition and growth in demand.

Constant capex and product introductions to drive growth

TCPL incurred INR433cr over FY19–23 on several greenfield and brownfield expansion projects across India. It spent ~INR100cr over FY21–22 to double its flexible packaging capacity and strengthen its backward integration (Innofilms). Faster absorption of expanded capacity has forced it to add an additional line in its flexible packaging plant, further expanding capacity by 50%. The focus is on improving plant utilisation and launching products. It raised capacity over time and expanded its manufacturing presence across India from a single location. It plans to debottleneck to boost capacity by 15% in the folding carton segment. To diversify and tap the growth opportunity in the expanding smartphone and electronics sector, it acquired an 89% stake in COPPL, which has a presence in the high-margin rigid box space. Multiple customers have been successfully onboarded in this segment. TCPL anticipates a higher wallet share in coming quarters. Although this business is operating at a loss, it can generate 18–20% EBITDA and 20–25% RoCE as it scales. It aims to grow revenue to 3x over the next two-to-three years by adding additional clients and launching various products at a minimal investment.

Huge traction in exports

Exports surged by ~31.5% CAGR over FY18–23, ~2.4x higher than domestic growth. It has successfully expanded its operations geographically and capitalised on export opportunities, resulting in robust growth. Given the huge export potential in flexible packaging, it is actively working towards it. It exports folding cartons but sees limited potential due to extremely high freight cost. In FY23, the share of exports in total revenue stood at 25% as against 14% in FY18. It is adding new export customers given its reach, innovation, and greater respect for Indian quality and service. It exports mainly to Europe, Middle East, and parts of Africa. The management is looking to expand further into North America as it sees a lot of opportunity there. We expect the addition of new customers and geographic expansion to aid the growth momentum in TCPL's export market.

Valuation and view

We initiate coverage with a 'BUY' rating, given its leading position in folding cartons, a wide product basket, and strong execution track record. Its medium-term growth prospects to be significantly enhanced by a clear vision, a management team with a proven track record, higher market share, better supply chains, the commissioning of a new flexible packaging line which is likely to drive volume growth. Over FY23–25, we expect a sales/EBITDA/PAT CAGR of 17%/17%/25%. We expect EBITDA margin to remain steady at 16% with the possibility of positive operating leverage. The stock trades at 8.5x FY25E EPS at the CMP — a considerable discount to its peers with a comparable product profile. Given the improved earnings visibility and discounted valuations, we value the stock at INR2,209 (13x FY25 earnings — in line with its historical average), at a 52% upside from its CMP.

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenues (INR Cr)	904	1,086	1,475	1,654	2,014
Rev growth (%)	1.6	20.1	35.8	12.2	21.7
EBITDA (INR Cr)	133	154	236	262	323
Adjusted PAT (INR Cr)	33	47	98	115	155
P/E (x)	39.4	27.9	13.4	11.5	8.5
EV/EBITDA (x)	11.7	11.0	7.7	6.6	5.1
RoACE (%)	13.3	14.0	17.3	19.8	20.9
RoAE (%)	11.8	14.8	25.2	23.6	25.9

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Business Structure

TCPL diversified from folding cartons to flexible packaging in 2017 and rigid packaging (by acquiring COPPL) in 2022. It is well-placed to capture rising demand in the consumption sector. It ranks among the top two companies in folding cartons and is one of the fastest growing firms in the flexible packaging space.

We expect TCPL to clock ~17% sales CAGR over FY23–25, led by:

- The folding carton segment will grow at 1.5x industry growth driven by market share gains, better supply chains, and capacity expansion in line with growing demand.
- Amid the global thrust on sustainability, there is a shift towards paperboard-based packaging and sustainable laminates. This is expected to trigger another leg of high growth for the industry.
- Consolidation of capacities in favour of environmentally friendly technologies is expected to lower competition.
- The flexible packaging segment is set to clock 31% CAGR over FY23–25, driven by the faster absorption of the second line and commissioning of the third line in FY24. TCPL started commercial production of eco-friendly polythene (PE) blown films, which can be an additional growth lever.

With higher contribution from the flexible packaging segment, EBITDA margin is likely to dip, but absolute EBITDA can still grow. However, the focus on value-added products and operating leverage benefits can cushion margin as it ramps up capacities. We expect a stable EBITDA margin over FY23–25.

A strong operational performance and stable margin profile to boost net profit by ~25% CAGR over FY23–25.

Over the next two years, the management expects an annual improvement of 10–15 days in working capital days (WCD).

Return ratios and cash flow to improve along with lower capex and steady margin.

We expect consolidated leverage (debt-to-equity ratio) to touch 0.8x in FY25 from 1.1x in FY23 due to an improvement in operating profit and no addition to debt.

At the CMP (INR1,450), the stock trades at 8.5x FY25E EPS and 5.1x FY25E EV/EBITDA.

We initiate coverage on the stock and recommend a ‘BUY’ with a TP of INR2,209, valuing the company at 13x FY25E earnings.

With strong demand and the company's constant focus on product innovation and capacity expansion, we anticipate TCPL's growth momentum to continue across all of its segments.

With the introduction of new products and an expansion of flexible packaging and folding carton capacity, revenue would rise to INR 2014cr from INR 1475cr.

We forecast consolidated revenue to increase by 17%, EBITDA to grow by 17% and PAT to rise by 25% over FY23–25e.

INR Cr	FY22	FY23	FY24E	FY25E
Revenue	1,086	1,475	1,654	2,014
EBITDA	154	236	262	323
EBITDA margin (%)	14	16	16	16
PAT	47	98	115	155

INR Cr	FY22	FY23	FY24E	FY25E
ROACE (%)	14	17	20	21
OCF	90	16	244	234
Net D/E ratio	1.1	1.1	0.8	0.5

	FY25E	Target
P/E (x)	13x	2,209

At CMP, 25E P/E is 8.5x + **FY25E RoACE of 21%** + **At target price, FY25E P/E is 13x**

Upside: 52%

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Focus Charts

Exhibit 1: Consol. revenue CAGR of 17% over FY23-FY25E aided by strong growth across segments

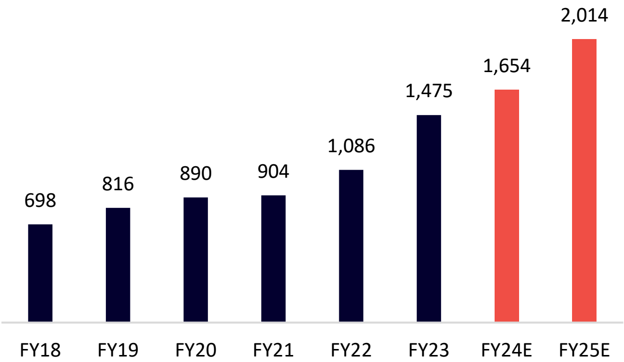


Exhibit 2: Folding Carton revenue to increase at steady pace

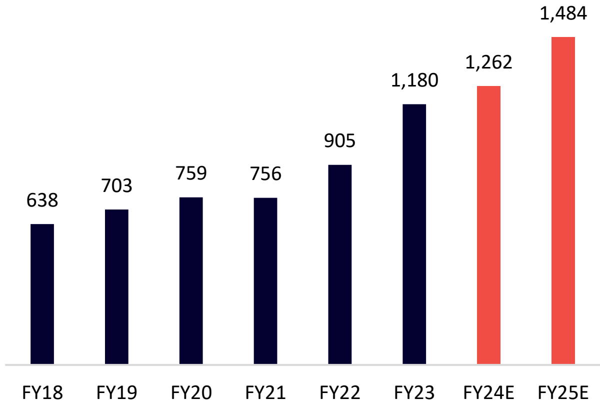


Exhibit 3: Flexible packaging revenue to register 31% CAGR over FY23-25E

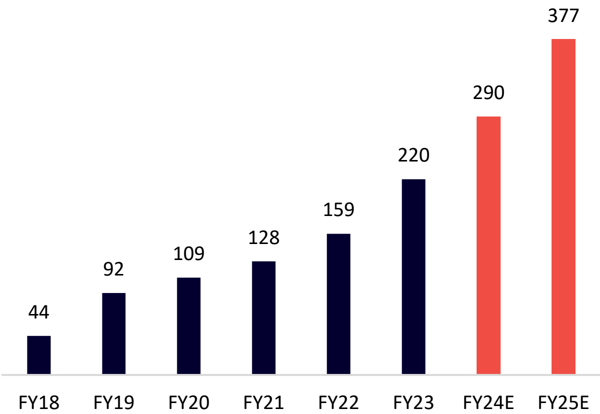


Exhibit 4: Folding carton dominates the revenue mix with over 70% share

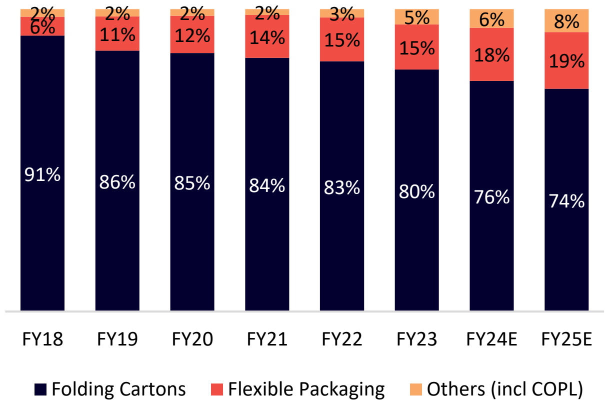


Exhibit 5: EBITDA margin to remain stable despite flexible packaging revenue growth

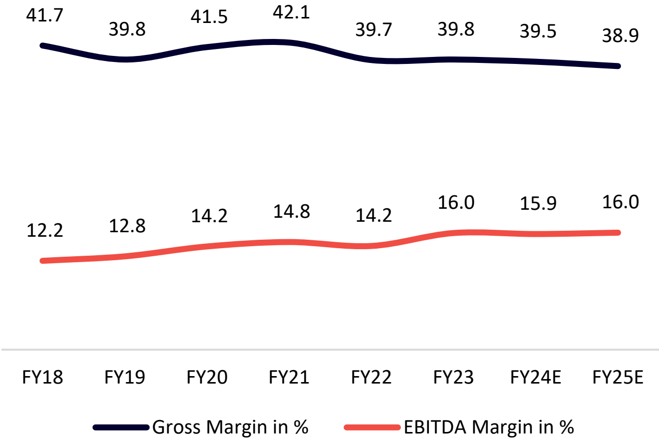
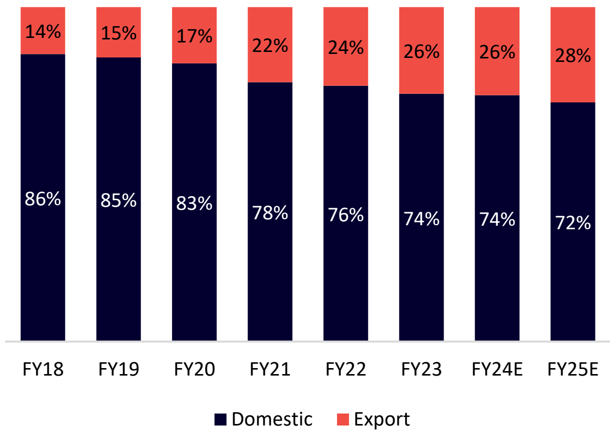


Exhibit 6: Exports to outpace domestic growth



Source: Company, Nuvama Wealth Research
*= Charts are based on our assumptions

Proxy play to consumption

Exhibit 7: Return ratios to improve over FY23-FY25E on the back of better profitability

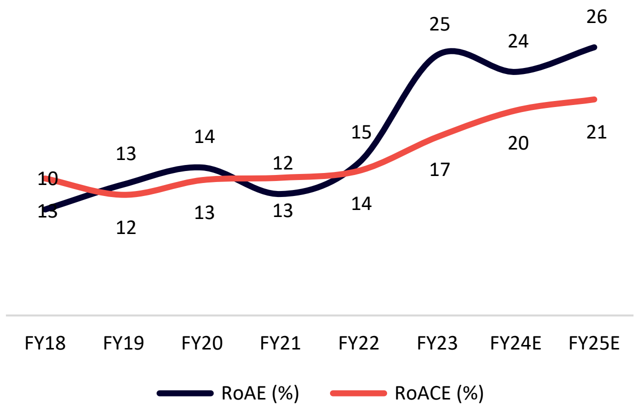


Exhibit 8: Better cash flow generation, working capital management, and steady debt level to lower debt/equity to 0.8x by FY25E

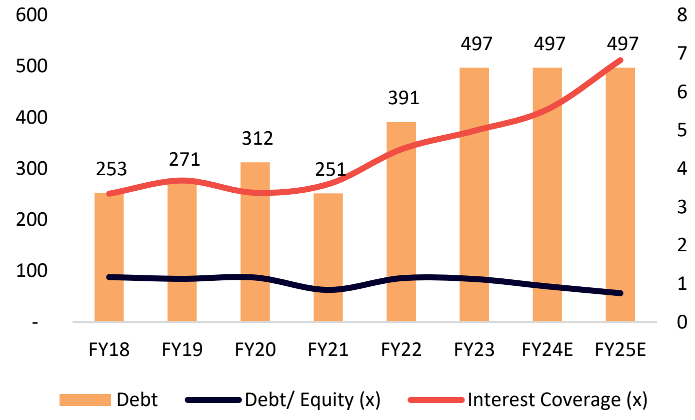


Exhibit 9: Working Capital days to witness gradual improvement

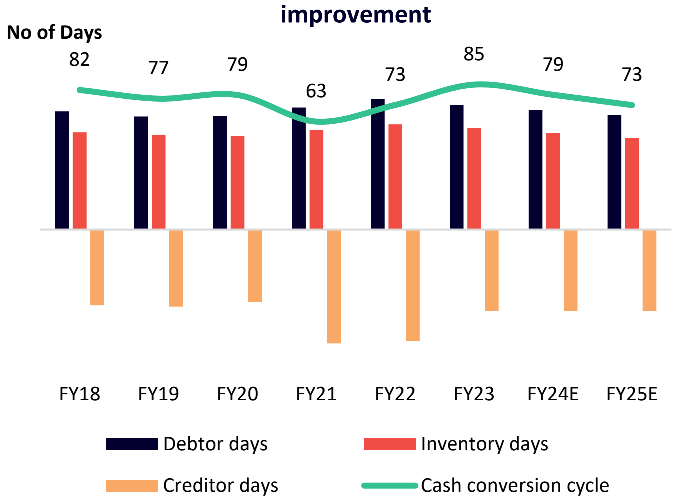
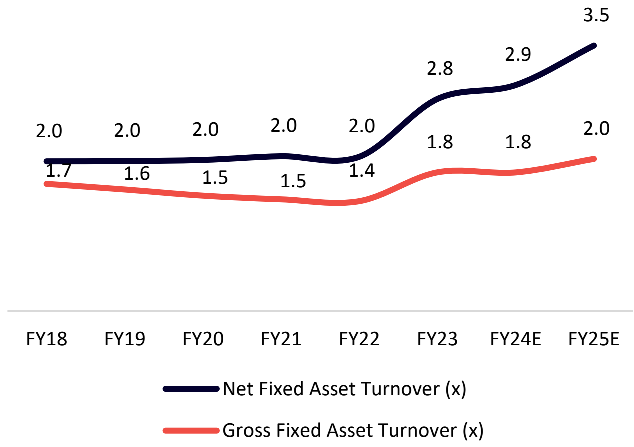


Exhibit 10: Increased utilisation to improve asst turn



Source: Company, Nuvama Wealth Research

Investment Rationale

I. Strong client base spanning multiple sectors

TCPL Packaging (TCPL) caters to a wide range of industries, including FMCG, tobacco, and liquor. Sales concentration from the top three industries — FMCG, tobacco, and F&B — is high. While this signifies higher sector concentration, it is mitigated to an extent by its long-term association with clients and reputed client base. From a single segment (tobacco) and client (Godfrey Phillips India), it now caters to more than 150 clients from multiple sectors in the folding carton segment. The FMCG and F&B industry contributes 55-60% to total revenue, followed by tobacco and pharma. In FY17, it forayed into the flexible packaging segment, thus diversifying its client base. Its top clients include HUL, Colgate, Mondelez, Nestle etc. It has been leveraging its long-standing relationships (spanning over 32 years) with marquee clients across industries to gain a higher wallet share. Future revenue growth for the industry is expected to be driven by a greater share of organised retail as well as rural penetration, and the resultant increase in the market size of the food processing industry: the largest domestic consumer of packaging products. Consolidation of capacities in favour of environmentally friendly technologies is expected to lower competition. Being one of the larger players, with better technology and know-how, it is well poised to gain from this technology transition and growth in demand.

Exhibit 11: Folding carton dominates the revenue pie

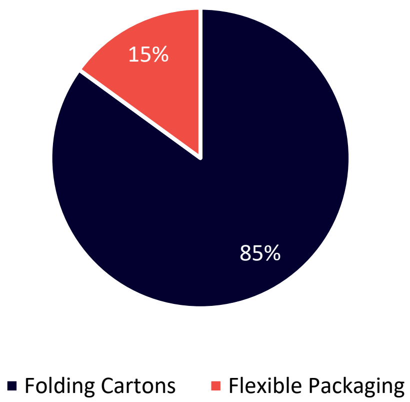
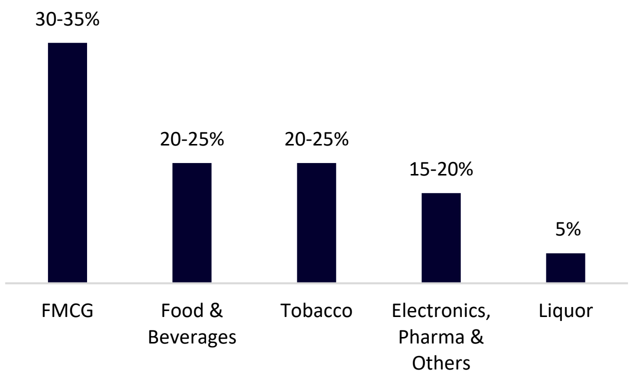


Exhibit 12: FMCG , F&B accounts ~60% of revenue



Source: Company, Nuvama Wealth Research

Exhibit 13: Marquee Clients across Industries

II. Constant capex and product introductions to drive growth

TCPL incurred INR433cr over FY19–23 as it undertook several greenfield and brownfield expansion projects across India. It spent INR110cr over FY21–22 to double its flexible packaging capacity and strengthen its backward integration. Faster absorption of expanded capacity has forced it to add an additional line in its flexible packaging plant, further expanding capacity by 50%. The focus is on improving plant utilisation and launching products. It commenced commercial production at its Silvassa factory in 1989–90. It raised capacity over time and expanded its manufacturing presence across India from a single location. In FY23, installed capacity stood at 1lk mtpa. An additional flexible packaging production line is expected to be commercialised soon. It plans to debottleneck to boost capacity by 15% in folding carton segment. When compared to its local peers, TCPL is the third largest in terms of installed capacity behind Parksons Packaging (owned by Warburg Pincus) and Borkar Packaging with 1.5lk mtpa installed capacity each. However, in terms of revenue, it is the second biggest folding carton player in India.

To diversify and tap the growth opportunity in the expanding smartphone and electronics sector, it acquired an 89% stake in Creative Offset Printers Pvt (COPPL), which has a presence in the high-margin rigid box space. COPPL supplies boxes to leading mobile companies such as Samsung and clocked a revenue of ~INR32cr in FY23. Multiple customers have been successfully onboarded in this segment. TCPL anticipates a higher wallet share in coming quarters. Although this business is operating at a loss, it can generate 18–20% EBITDA and 20–25% RoCE as it scales. The management feels COPPL's capacity is under-utilised. It aims to grow revenue to 3x over the next two-to-three years by adding additional clients and launching various products at a minimal investment.

Exhibit 14: Consistent capex to tap growing demand

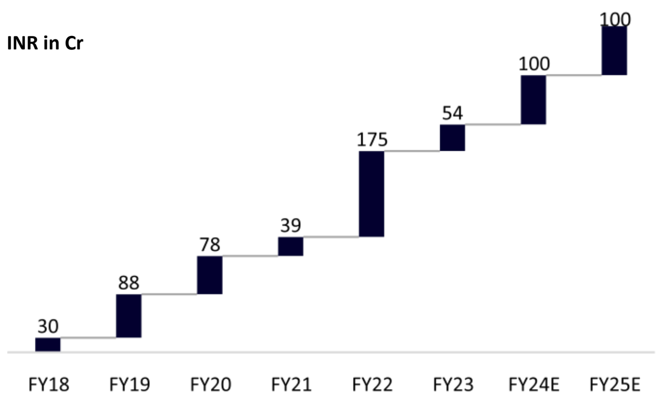


Exhibit 15: Asset turn continue to improve

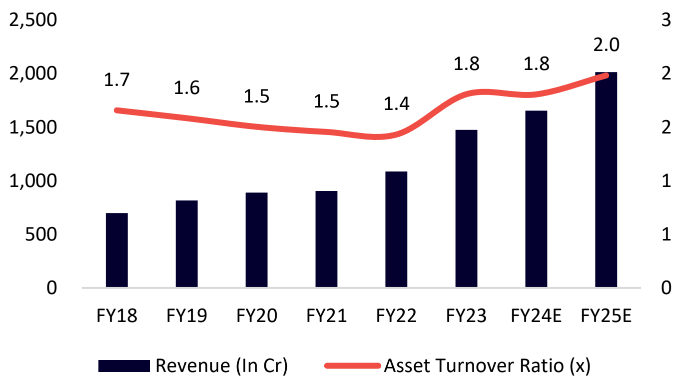


Exhibit 16: Folding carton installed capacity of top 3 players in India

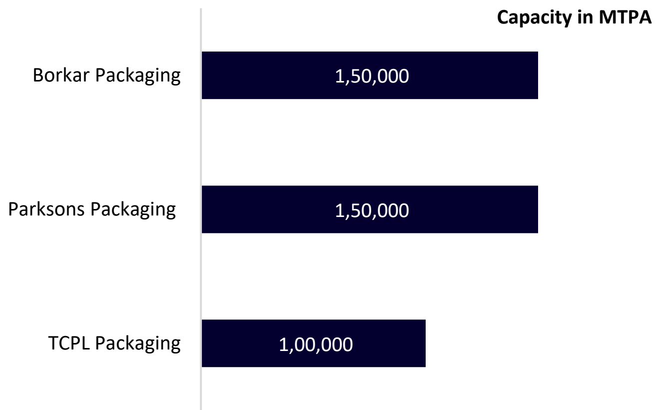
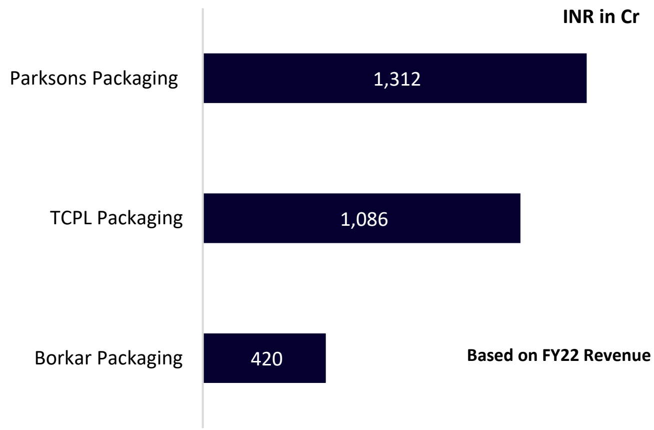


Exhibit 17: TCPL is the 2nd largest player in folding carton in India



Source: Industry, Nuvama Wealth Research

III. Adoption of leading technology offers an advantage over competitors

Its strong technical expertise (to capture trends in the packaging industry) and a manufacturing and distribution network (to meet demand) allowed TCPL to grow despite challenging conditions. Generally, a converter business sees steady margins. It can improve with value addition and creative offerings. During our visit to its Silvassa plant, we observed that most machines were imported from Europe, especially from Italy and Germany. A couple of them were from China and India. It uses 10 colour printing machines which are utilised by a limited number of local players. To capitalise on industry trends, TCPL formed a subsidiary: TCPL Innofilms Pvt (TIPL). It has set up a state-of-the-art innovative polythene blown film line, imported from Germany, at its Silvassa plant. This film is based on machine-direction orientation technology, which is environmentally friendly and capable to produce recyclable packaging. This is one of a kind, enabling TCPL to be among the few domestic companies to be equipped with such a capability. At present, most flexible packaging consists of multiple polymers, rendering it non-recyclable. TCPL aims to use a single polymer, while satisfying all barrier and functional requirements, aiding the transition to recyclable packaging. Considering the crisis in plastic waste disposal, there is increasing pressure on brand owners to adopt recyclable packaging, resulting in higher offtake for TCPL's products. When compared to traditional packaging materials, recyclable products typically command a 50% higher realisation. It will use part of the polythene blown film for captive consumption and the rest will be exported. Based on demand, it will contemplate further investments to manufacture this innovative product.

Exhibit 18: Sustainability Initiatives – Paper Board

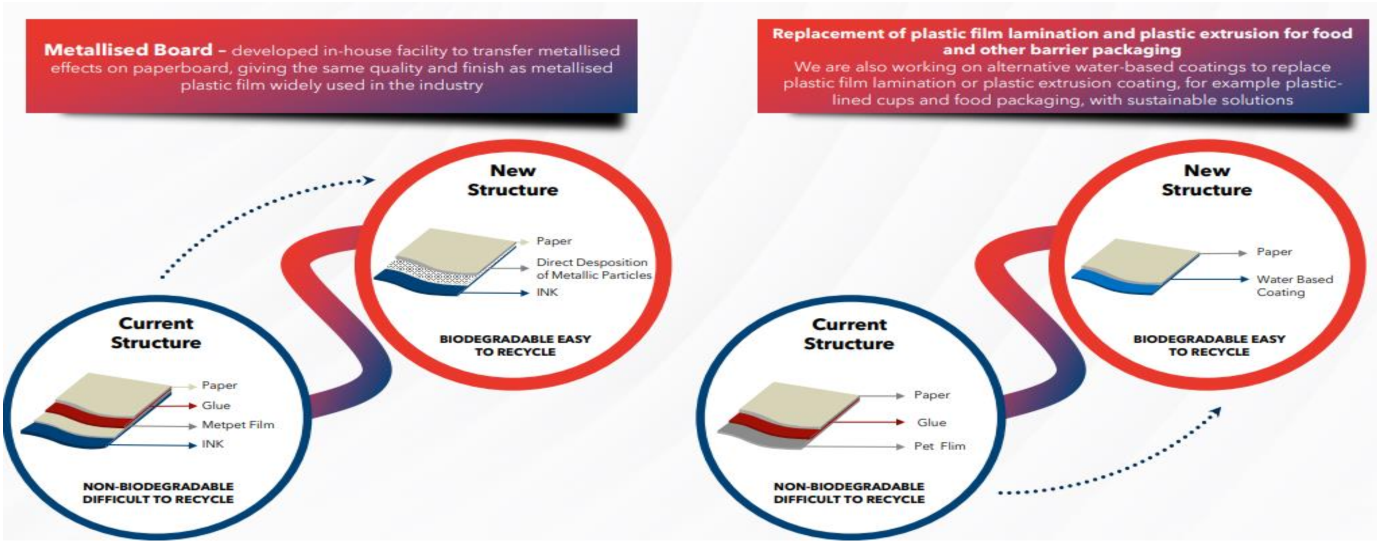
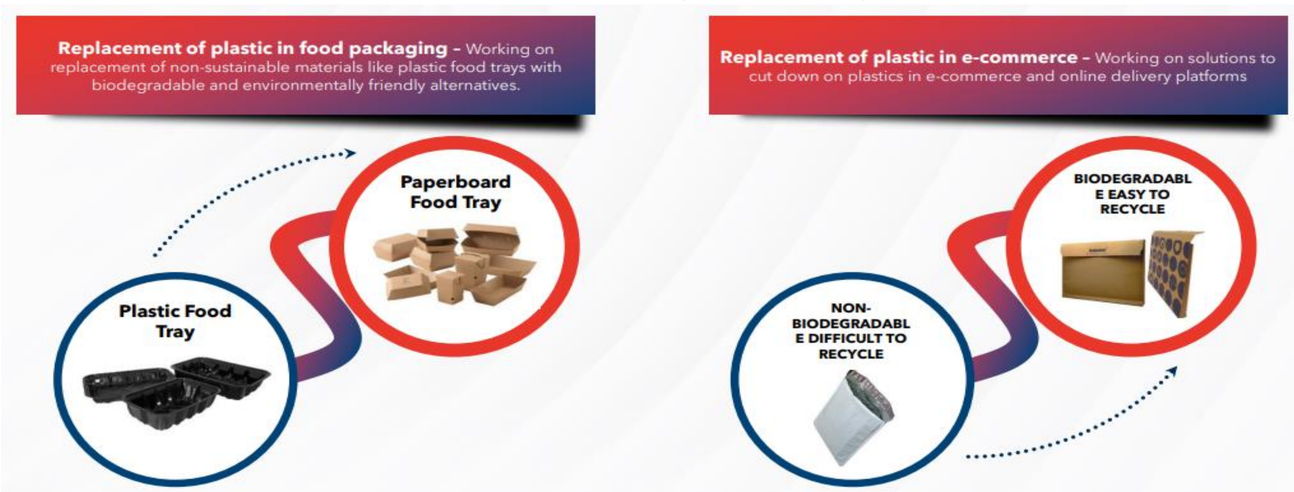


Exhibit 19: Sustainability Initiatives – Paper Board



Source: Nuvama Wealth Research

Exhibit 20: Sustainability Initiatives – Flexible Packaging

Exhibit 21: Adoption of leading technology offers an advantage over competitors

Source: Nuvama Wealth Research

IV. Biggest beneficiary of the consolidation in the folding carton industry

This unorganised and largely small-scale industry is highly labour intensive, fragmented, and caters 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 it into boxes, and collecting the waste for recycling. Despite a heterogeneous mix of players, some scaled-up packaging manufacturers have started embracing the latest in technology and advancements that exist globally. As the current needs of the Indian market are starkly different from global packaging requirements, these organised manufacturers are tailoring their offerings keeping the domestic consumer in mind. A large section of the industry still possesses limited technological capabilities — a key impediment to growth.

The unorganised sector has been weakened by i) rollout of GST, ii) demonetisation, iii) the financial crisis of 2018–19, and iv) the COVID-19 pandemic. A battered unorganised sector, coupled with the need for investing in new technologies and sustainable packaging solutions, led to a faster than anticipated growth in market share for the organised sector. TCPL is one of the biggest beneficiaries of this disruption.

The inevitable shift from the traditional/unorganised sector is already evident in the gradual evolution of the packaging industry in India, with 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% unorganised share, 45–50% of this industry remains unorganised. This provides a significant opportunity for leading players to consolidate the market. There is intense competition among smaller players (sub-USD10mn) at the regional level who are facing competitive pressures and looking for growth avenues due to a stagnant business performance. Larger players have access to high-end printing technology and are integrated with customer teams at three levels (pre-press design and artwork, procurement teams, and automated packaging plant operations), which brings in some switching cost to keep the competition at bay.

While small to medium sized players, with low bargaining power, are likely be impacted more, bigger players like TCPL (catering to larger demand segments like FMCG), with high economies of scale should be able to maintain their bargaining power.
The packaging industry in India is slowly, but steadily, coming up to speed with the mature global market. It 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 Indian packaging industry will usher transformation in the very nature of the industry as organised players stand to gain ground displacing smaller dispersed participants.

Exhibit 22: Organised shares consistently increasing

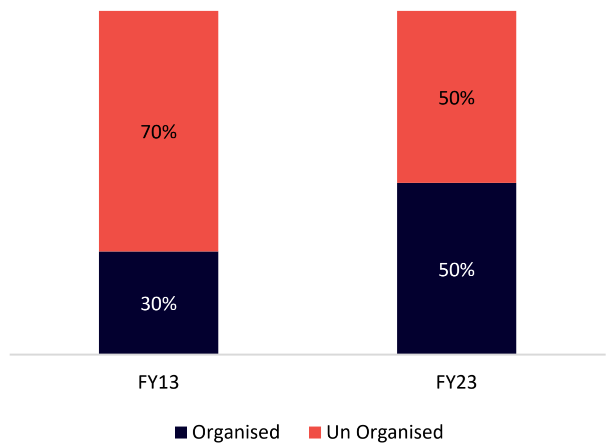
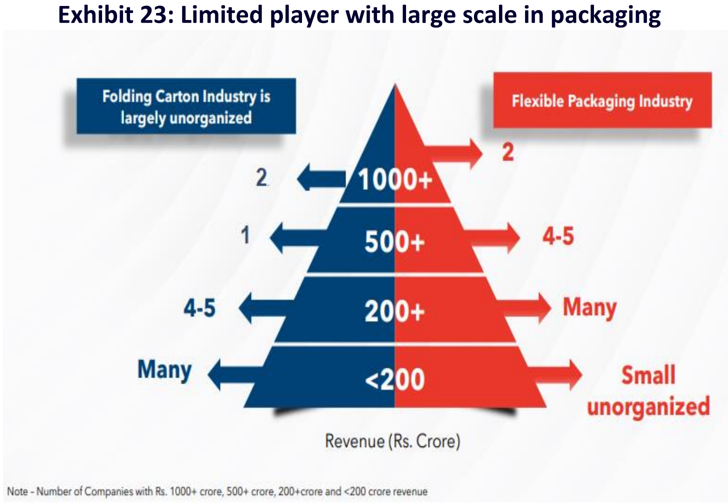


Exhibit 23: Limited player with large scale in packaging



Source: Nuvama Wealth Research

Proxy play to consumption

India is gaining international attention

Globally, packaging is a highly organised and mature market, as packaging penetration is quite high. For growth, a number of leading manufacturers are pursuing inorganic opportunities or establishing a presence in emerging / developing markets. In recent years, a strong consolidation drive has been observable. While this has been a recurring theme in the developed economies of North America and Europe, M&A activity has recently expanded to other emerging markets. As a result, M&A activity in India's packaging industry has increased as a growing number of multinational corporations have established or seek to establish a presence in the region.

Exhibit 24: M&A transactions in the packaging space in India (since 2012):

Year	Target Company	Segment	Bidder
2012	Uniglobe Packaging	Flexible Packaging	Amcor
2012	Interlabels	Labels	Skanem
2012	Neutral Glass & Allied (70% Stake)	Glass Packaging	Gerresheimer
2012	Ruby Macons	Paper	MeadWestvaco
2012	Webtech Industries (51% Stake)	Labels	Huhtamaki
2012	Triveni Polymers (75% Stake)	Pharma Packaging (Plastic)	Gerresheimer
2013	Parikh Packaging (60% Stake	Flexible Packaging	Constantia Flexibles
2013	Janus Packaging (65% Stake)	Janus Packaging (65% Stake)	Edelmann
2014	Positive Packaging	Flexible Packaging	Huhtamaki
2015	Packaging India	Flexible Packaging	Amcor
2015	Kamsri (Pharmaceutical Packaging)	Paper Packaging	Essentra Plc
2016	Powerband Industries (74% Stake)	Flexible Packaging	Intertape Polymer Group
2017	Plus Paper Foodpac	Paper Packaging	Nippon Paper
2017	Max Specialty Films (49% Stake)	Flexible Packaging	Toppan Printing
2017	Axiom Propack	Closures	Guala Closures
2017	Oricon Packaging	Closures	Pelliconi
2019	Essel Propack	speciality packaging	Blackstone
2020	Shriji Polymers	Pharma Packaging (Plastic)	Creador
2020	Piramal Glass	Glass Packaging	Blackstone
2021	Parksons Packaging	Folding Carton	Warburg Pincus
2022	Jindal Poly Films	Flexible Packaging (Films)	Brookfield
2023	Polyplex	Flexible Packaging (Films)	AGP Holdco

Source: Industry, Nuvama Wealth Research

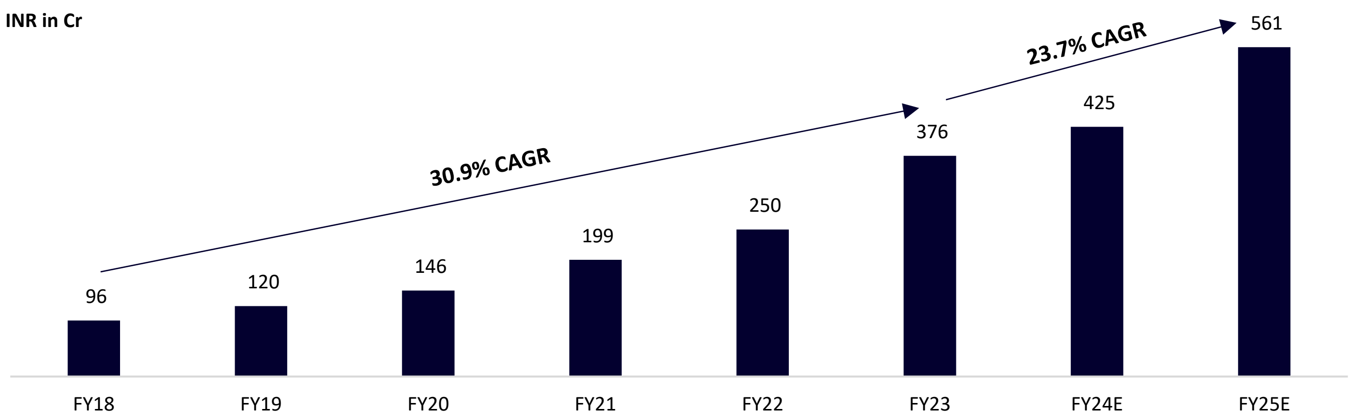
V. Huge traction in exports

Exports for TCPL surged by ~31.5% CAGR over FY18–23, ~2.4x higher than domestic growth. It has successfully expanded operations geographically and capitalised on export opportunities, resulting in robust growth. Given the huge export potential in flexible packaging, it is actively working towards it. TCPL also exports folding cartons but sees limited potential due to extremely high freight cost. In FY23, the share of exports in total revenue stood at 25% as against 14% in FY18. It is adding new export customers given its reach, innovation, and greater respect for Indian quality and service. It mainly exports to Europe, Middle East, and parts of Africa. The management is looking to expand further into North America as it sees a lot of opportunity there.

China is the world's largest exporter and manufacturer of packaging materials and products. While trade in the sector was severely hit by the COVID-19 pandemic, China's isolation forced packaging companies around the world to evaluate supply chain vulnerabilities, hastening relocation of their businesses and sourcing to other developing nations like India. As most domestic organised players use European machinery, they can offer the highest quality at affordable prices. Our interactions with various companies, particularly exporters, indicate that western companies are willing to pay a premium for non-Chinese goods if they can match the quality standards. The management said it can expand capacity, if necessary, to meet export demand.

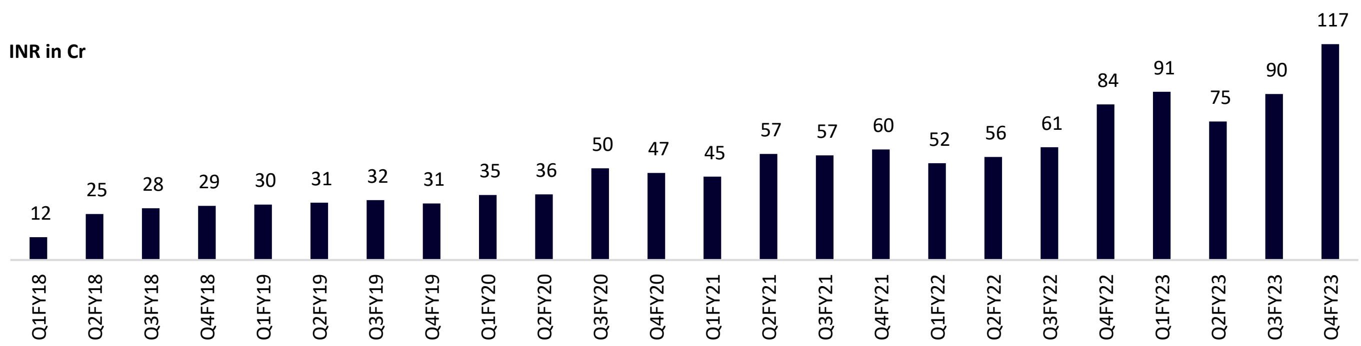
TCPL onboarded Dr Andreas Blaschke, with over three decades of global experience, as an independent director. As core board member of Europe's Mayr-Melnhof Karton (revenue: ~EUR5bn in CY22), he shaped the international expansion of MM Group from a regional to a global packaging player. We expect his experience and expertise in the global packaging space to help TCPL unfold its export growth strategy. Over FY18–23, the export business clocked 31.5% CAGR, given healthy global demand. We expect the addition of new customers and geographic expansion to aid the growth momentum in TCPL's export market.

Exhibit 25: Export growth boosted by China Plus One and global packaging demand



Source: Nuvama Wealth Research

Exhibit 26: In five years, quarterly average exports multiplied by three to four times



Source: Nuvama Wealth Research

VI. Financial performance to improve further

We expect 17% revenue CAGR over FY23–25 due to significant growth across business segments. The management expects the folding carton and flexible packaging segment to grow 1.5–2x faster than the industry over FY23–25. It sees multi-fold growth (on a small base) in the rigid packaging segment. TCPL is one of the few Indian companies to clock ~17% revenue CAGR in the past 15 years. It has never registered a YoY decline in revenue in the last two decades.

We expect an EBITDA/PAT CAGR of 17%/25% over FY23–25. Commissioning of the third line at its flexible packaging unit in FY24, recovery in domestic volume growth, and a healthy demand environment will be key growth drivers. TCPL commenced production of polythene blown film line at Silvassa. Successful scaling of the blown films and rigid boxes division under COPPL will be an added kicker. With higher contribution from the flexible packaging segment, EBITDA margin is likely to dip, but absolute EBITDA can still grow. However, the focus on value-added products and operating leverage benefits can cushion margin as it ramps up capacities. Its major raw materials are paperboard and polythene. Historically, TCPL has successfully passed on higher raw material prices to its customers with a one-month lag. As a result, EBITDA margin remained in the 13–16% range.

TCPL incurred capex of INR433cr over FY19–23 as it undertook several greenfield and brownfield expansion projects across India. It spent ~INR100cr over FY21–22 to double its flexible packaging capacity and strengthen its backward integration (Innofilms). To tap the growing demand for its products, it is adding an additional line in its flexible packaging plant and debottlenecking in the folding carton segment. Capex is pegged at INR100cr and will enhance its flexible packaging/folding carton capacity by 50%/15%. The management has no plans to raise any debt. It expects its debt level to have peaked out in FY23. As it has achieved the desired distribution of its manufacturing facilities across India, capex will predominantly be brownfield. This is likely to generate a superior return on incremental capital (RoIC). TCPL's working capital cycle (~85 days) is higher than industry average of 55–60 days due to the pandemic-led supply disruption. The management has guided at a significant improvement in the working capital cycle (to below 70 days) over the next two-to-three years. This, along with higher sweating of assets, lead to an improved RoCE.

Exhibit 27: Consol. revenue CAGR of 17% over FY23-FY25E aided by strong growth across segments

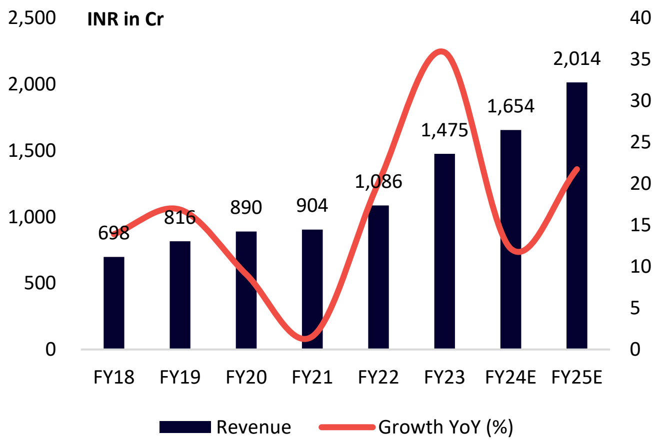
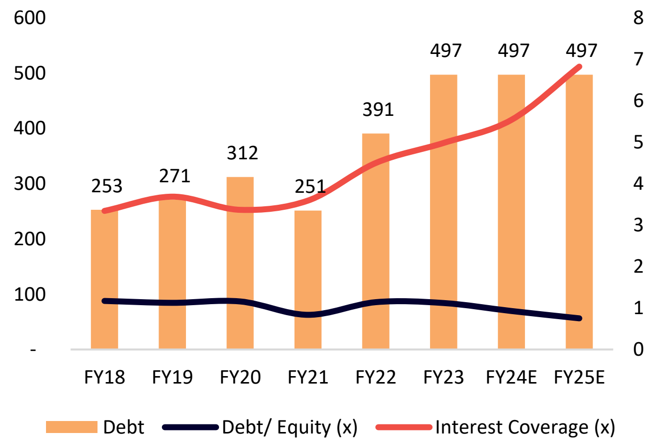


Exhibit 28: Better cash flow generation, working capital management, and steady debt level to lower debt/equity to 0.8x by FY25E



Source: Nuvama Wealth Research

Exhibit 29: Working Capital days to witness gradual improvement

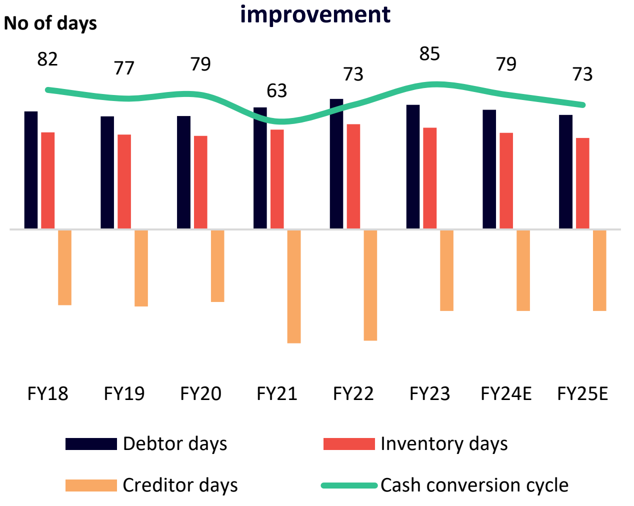
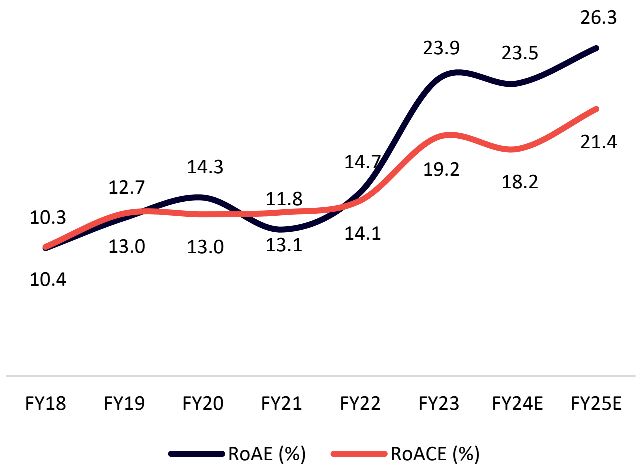


Exhibit 30: Return ratios to improve over FY23-FY25E on the back of better profitability



Source: Nuvama Wealth Research

Valuation and view

Value-added offerings and adoption of new technology have transformed India's packaging industry from a commodity to a solutions provider. With large-scale opportunities from retail and e-retail, India's packaging industry will mature, with organised players displacing smaller dispersed players. TCPL is one of the few Indian companies to have clocked ~17% revenue CAGR in the last 15 years. Its medium-term growth prospects to be significantly enhanced by a clear vision and a management team with a proven track record, higher market share and better supply chains, the commissioning of a new line for flexible packaging, and a likely to drive volume growth. A greater emphasis on introducing value-added products through different prototyping and expanding its export reach to improve its financial performance.

We expect a revenue/EBITDA/PAT (adjusted) CAGR of 17%/17%/25% over FY23–25. Consistent need for growth capital has kept TCPL's debt levels high. On a relative basis, its debt level has decreased. We expect its debt to have peaked out in FY23 and remain at similar levels in the medium term. Improving utilisation rates and enhanced working capital management is likely to increase RoCE. At the CMP, the stock is trading at 8.5x/5.1x FY25E earnings/EBITDA, which is at a discount to its peers with a comparable product profile. Given the improved earnings visibility and discounted valuations, we initiate coverage with a BUY rating and value the stock at INR2,209 (13x FY25 earnings — in line with its historical average), at a 52% upside from its CMP.

Exhibit 31: Valuation comparison with its listed peers

Companies	CMP	Mcap (in bn)	P/E (x)			EV/EBITDA (x)			CAGR FY23-25E (%)		ROE %
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	Revenue	PAT	FY25E
Domestic (in INR bn)											
Mold-Tek Packaging	1,057	35	44	38	30	26	22	18	16	20	18
EPL	218	69	34	24	19	13	10	9	12	34	16
Global (in USD bn)											
International Paper Co	32	11	10	14	14	6	7	7	(4)	(27)	7
Amcor PLC	10	14	23	14	13	13	11	11	1	18	27
Packaging Corp of America	133	12	11	16	16	7	9	9	(3)	(14)	19
Huhtamaki Oyj	33	4	12	13	12	8	8	8	0	-3	13
Mayr Melnhof Karton AG	147	3	9	18	10	6	9	6	(5)	(13)	12
TCPL Packaging	1,450	13	12	11	8	8	7	5	17	25	26
Peer Set Average			19	18	15	11	10	9	4	5	17
Peer Set Median			12	15	14	8	9	8	1	8	17

Note : Revenue and PAT CAGR for global peers taken in CY numbers are from CY22-CY24
Source: Bloomberg, Nuvama Wealth Research

Key risks

Intense competition

There is intense competition in the packaging industry given the surfeit of players. While larger, organised players offer products at competitive rates due to economies of scale and access to advanced technology, smaller players cater to price-sensitive customers locally. Although high customisation partially limits the threat from imports, intense competition may constrain scalability, pricing power, and profitability.

Volatility in input prices

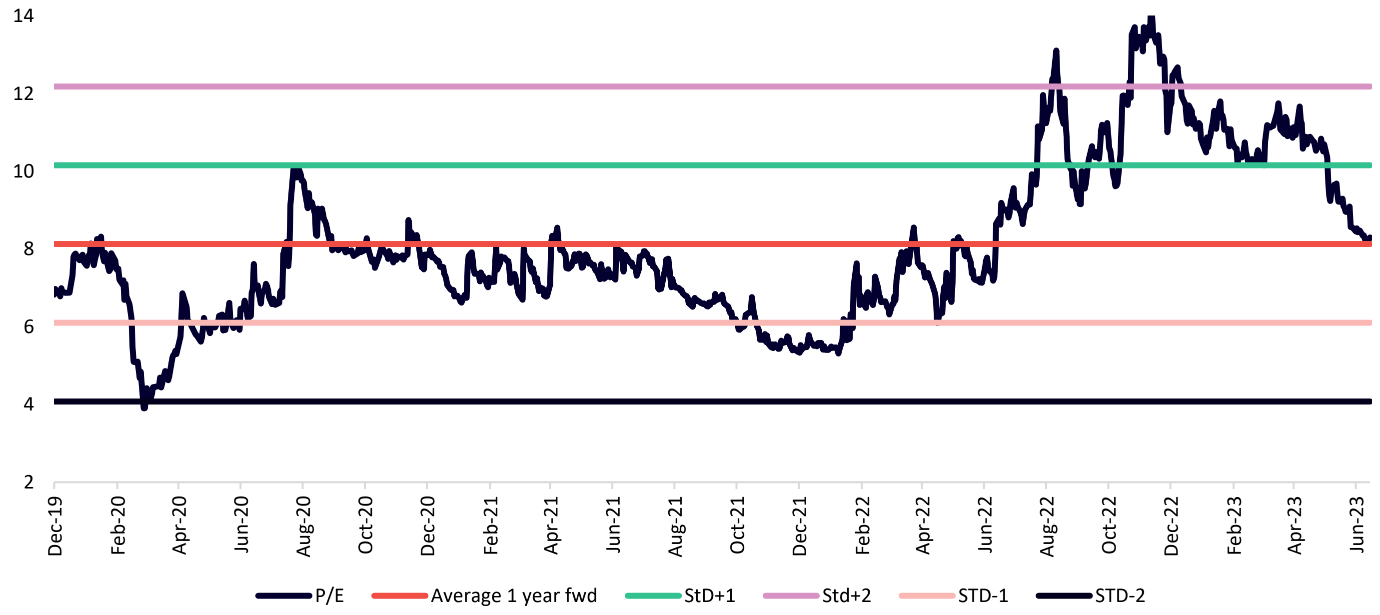
Paper board, a major raw material, takes up the lion’s share of TCPL’s total purchase cost. Raw material prices have remained volatile over the years, rising recently due to higher inflation. It has managed to protect margin and grow over FY22–23 given its ability to pass on the price increases to its customers. This ability to pass on such price rises in a continuing inflationary environment remains key from a margin perspective.

Slower end-user industry growth

Demand for TCPL's packaging products is closely related to growth in the FMCG sector, a key user industry (which accounts for 50% of revenue). Any unfavourable scenario, such as a bad monsoon year, may have a negative impact on FMCG demand, which in turn will have a negative impact on demand for packaging, resulting in lower revenue and profitability for the company.

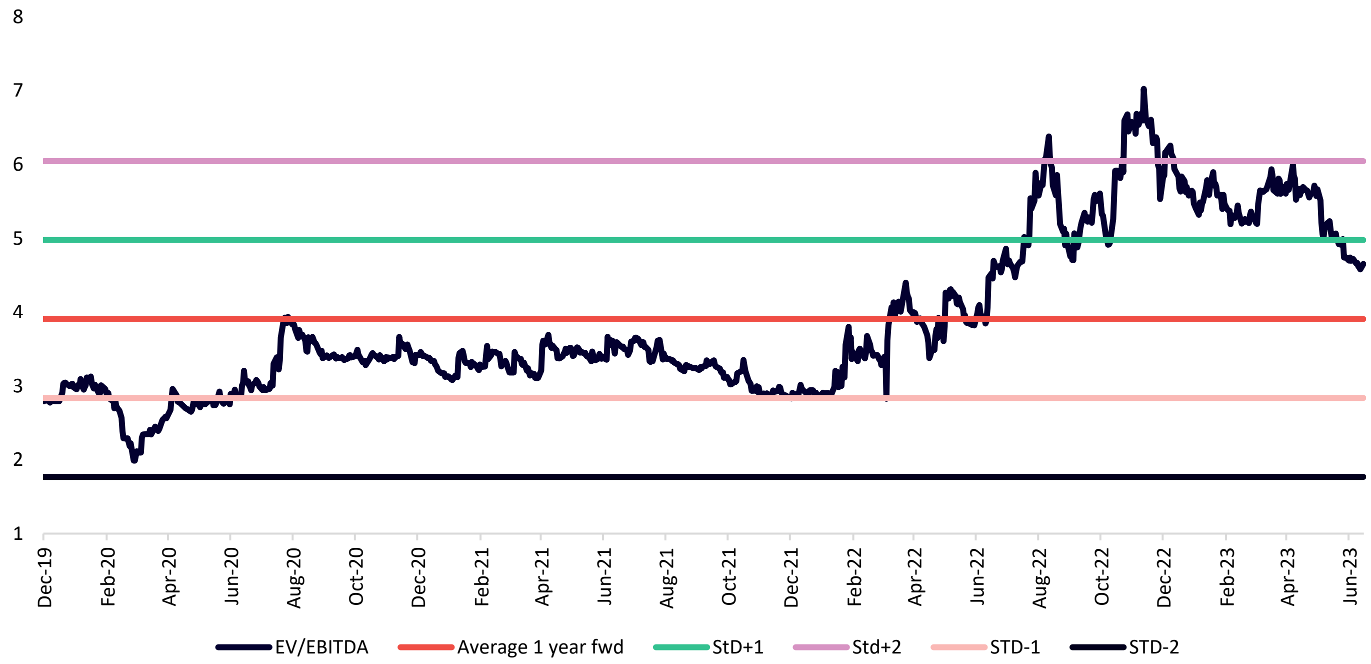
Proxy play to consumption

Exhibit 32: TCPL is trading near its average 1yr forward P/E multiple



Source: Nuvama Wealth Research

Exhibit 33: TCPL is trading near its average 1yr forward EV/EBITDA multiple



Source: Nuvama Wealth Research

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Proxy play to consumption

Unlisted Peer Comparison

Exhibit 34: Revenue growth Trend

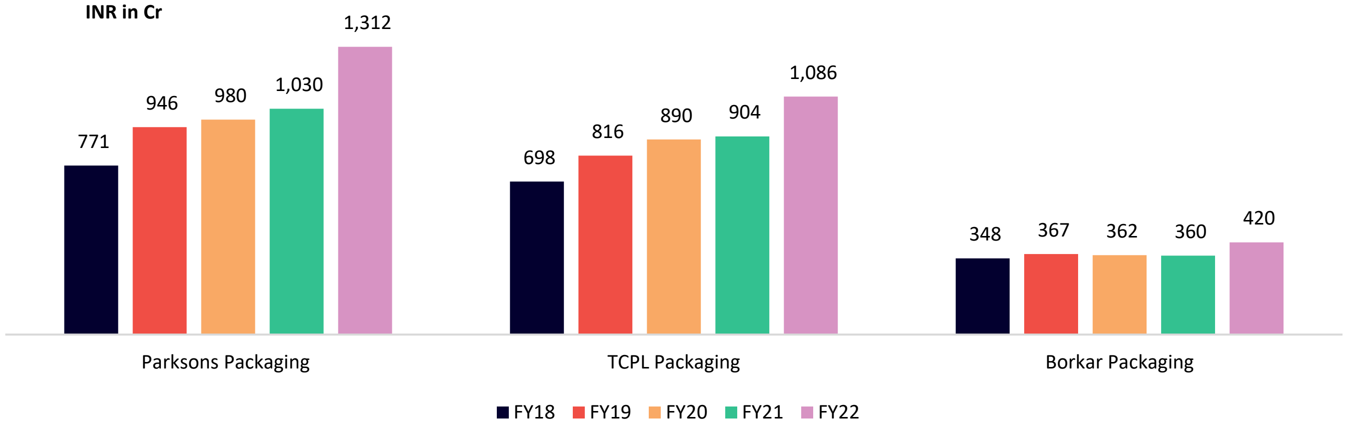


Exhibit 35: EBITDA margin Trend

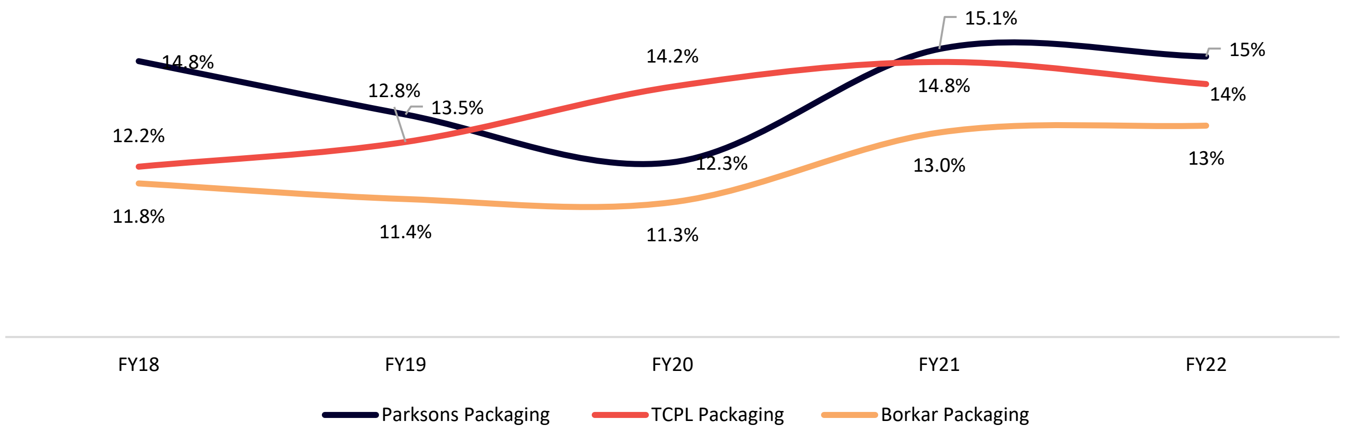


Exhibit 36: ROE profile of key players

Source: Nuvama Wealth Research

Packaging Industry: Attractive Market with Demand Drivers to Boost Growth

Exhibit 37: Global Annual Consumption ($bn)

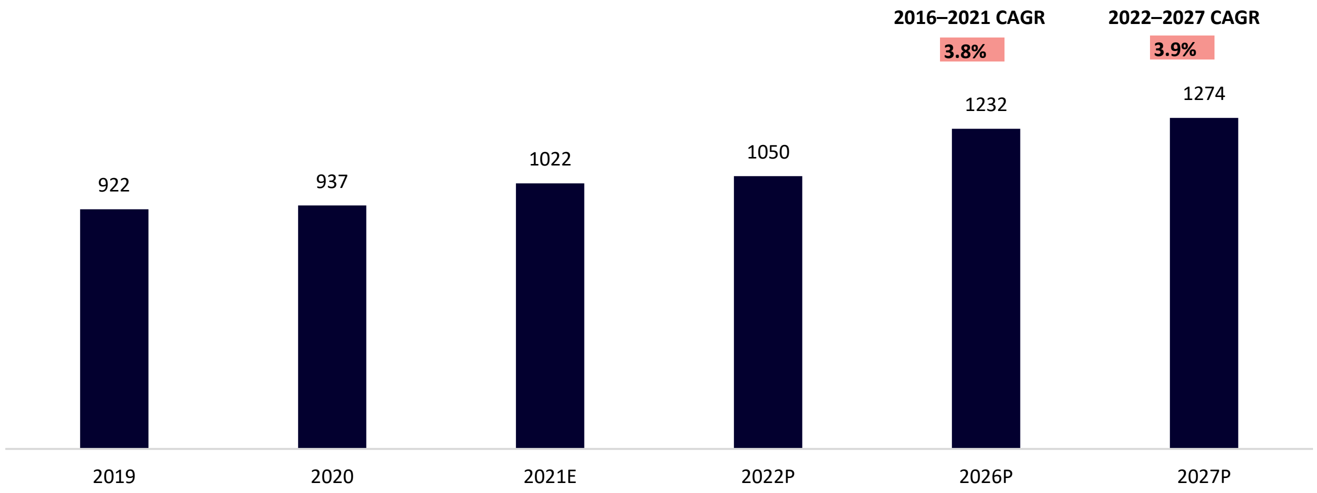
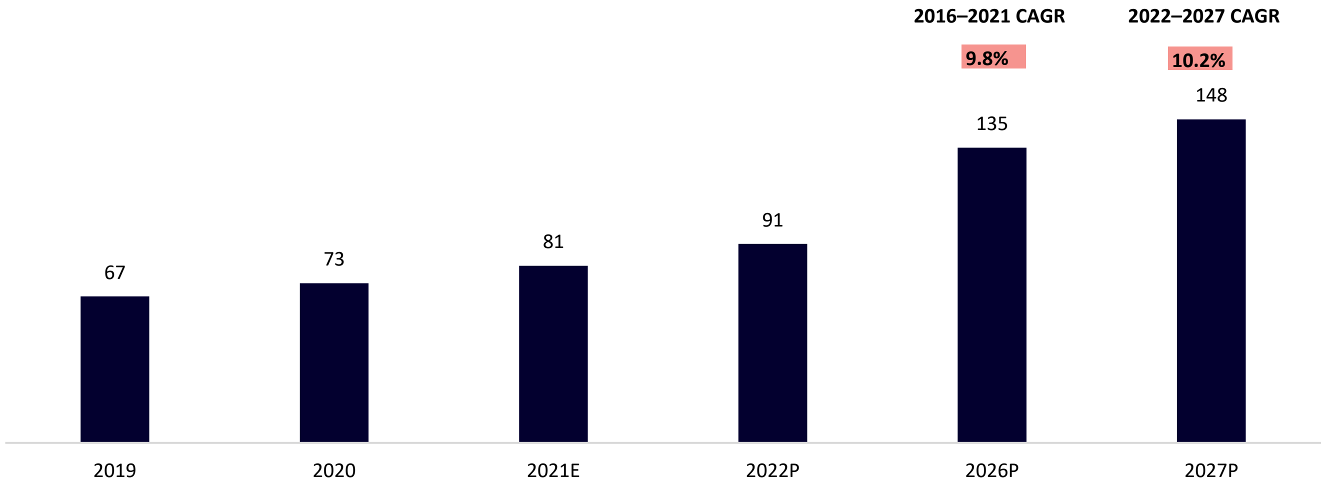


Exhibit 38: Domestic Annual Consumption ($bn)



Source: Nuvama Wealth Research

Key Sector Themes Driving Growth

- **Shift Towards Sustainable Materials:** Largest economies are regulating the use of plastics and moving towards recyclable plastic.
- **Technological Innovations:** Advances in technologies such as digital printing, industrial IoT, connected devices and smart sensors are disrupting and propelling the sector forward.
- **Changing Consumer Preferences:** eCommerce growth leading to the re-design of packaging to better serve the channel. Proliferation of the need for convenience – on-the-go, resealable and microwave ready.
- **Growth in Emerging Markets:** Global population increasing as well as ageing require lighter, easier to carry packaging formats. Emerging markets to spur growth; APAC projected to account for ~50% of global growth to 2022.
- **Increasing use of Flexible Materials:** Flexible packaging expected to exhibit the strongest growth of the various substrates. Technological advancements in film, low price point and consumer shift to convenience are behind the outsized growth.

Proxy play to consumption

Global

Exhibit 39: Market Size of Packaging by Substrate

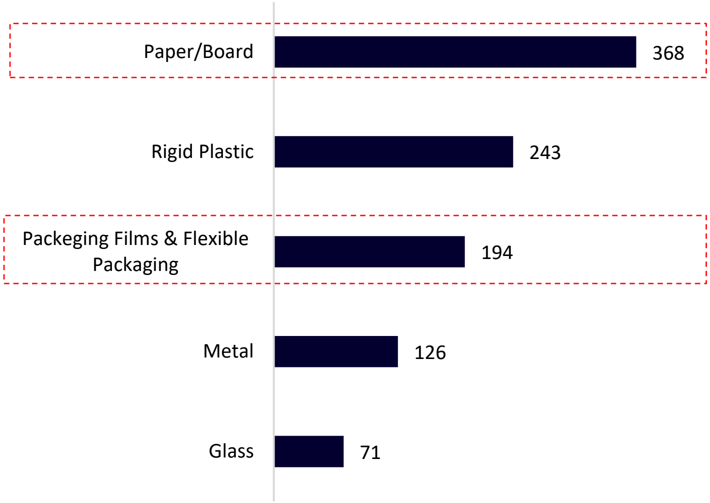
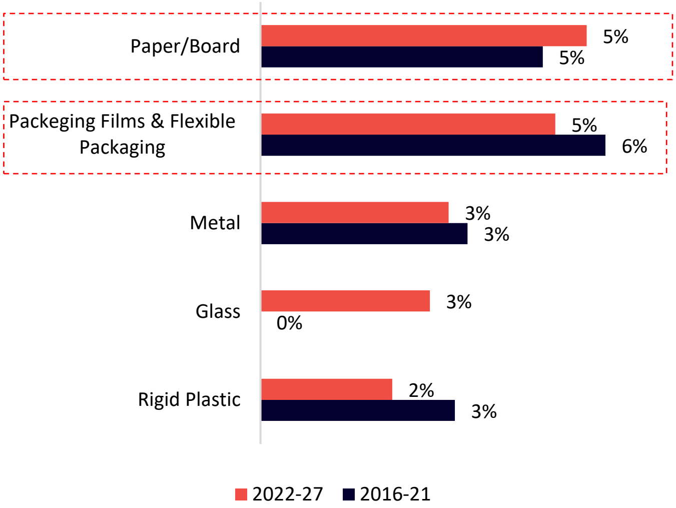


Exhibit 40: Growth Rate of Packaging Markets



Source: Nuvama Wealth Research

India

Exhibit 41: Market Size of Packaging by Substrate ($bn)

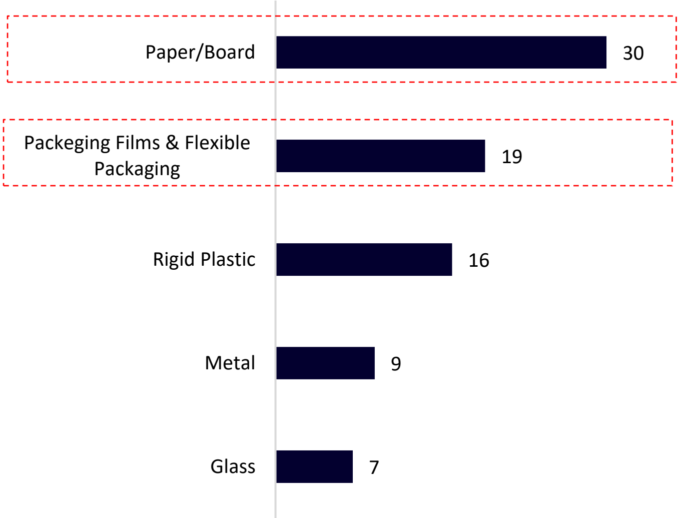
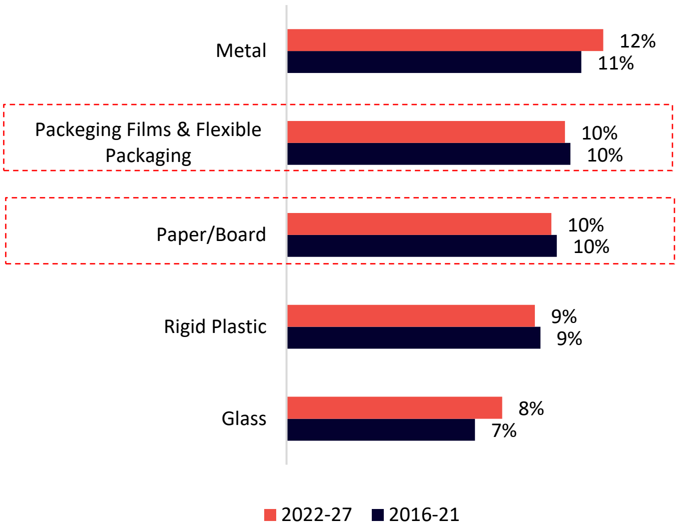


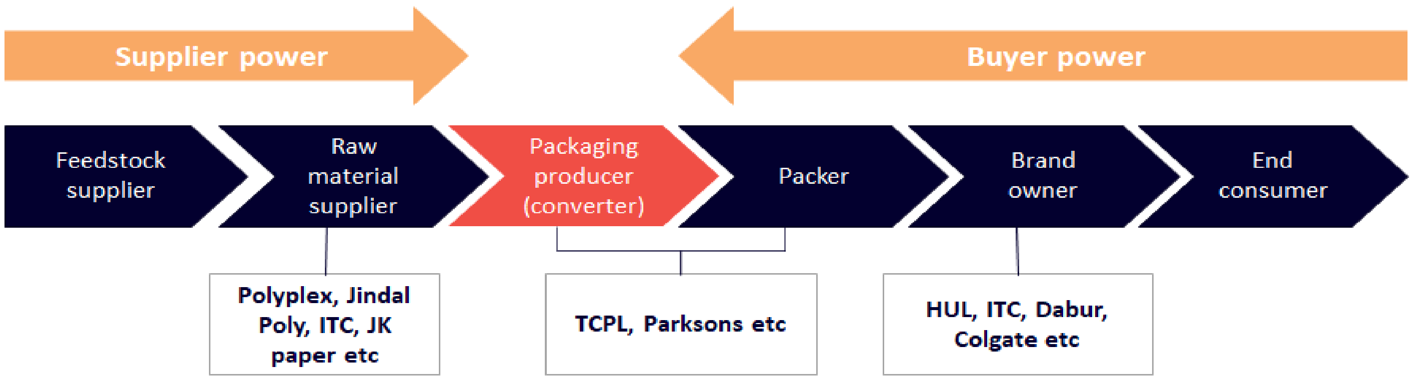
Exhibit 42: Growth Rate of Packaging Markets ($bn)



Source: Nuvama Wealth Research

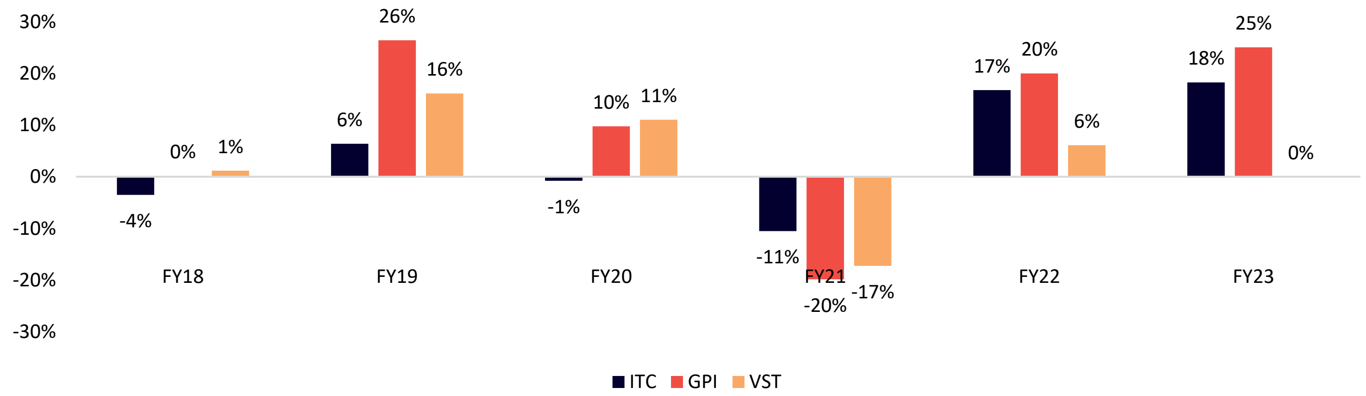
Proxy play to consumption

Exhibit 43: Value Chain of Packaging players



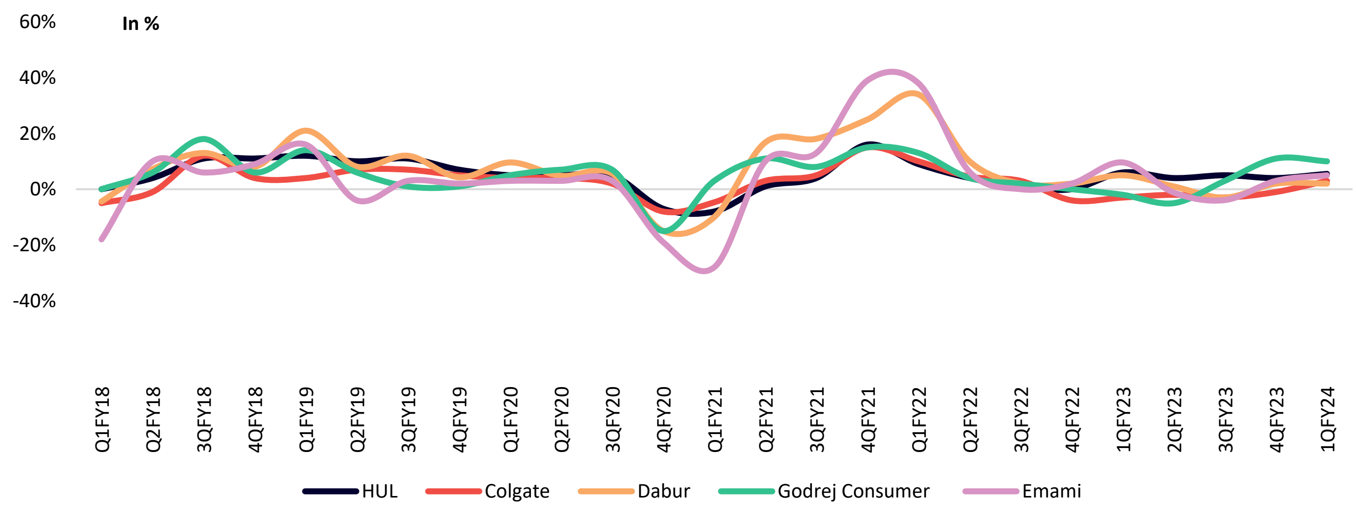
Source: Nuvama Wealth Research

Exhibit 44: Volume Growth of Cigarette players (YoY)



Source: Nuvama Wealth Research

Exhibit 45: Volume Growth of FMCG companies (YoY)



Source: Nuvama Wealth Research

Board of Directors

Name	Designation	Details
Mr. K. K. Kanoria	Executive Chairman	Graduate from Kolkata University with Hons. in Economics and Political Science, supervises the dayto-day activities of the Company mainly related to policy decisions and financial matters.
Mr Saket Kanoria	Managing Director	MBA-Finance from George Washington University, USA, supervises and controls the day-to-day activities of the Company
Mr Akshay Kanoriai	Executive Director	Graduate from University of Pennsylvania, USA, supervises the day-to-day activities of the Company & Plants and assists the Managing Director on various policy / initiative and strategy of the Company.
Mr Vidur Kanoria	Executive Director	Bachelor of Science in Business Administration, Finance, Operation and Technology Management from Boston University. He supervises the day-to-day activities of the Company and assists the Managing Director on various matters.
Mr Rishav Kanoria	Director	Graduate from University of Pennsylvania, USA and Post Graduate from Cornell University, NY, USA
Dr. Andreas Blaschke	Independent Director	Doctor of Laws from University of Vienna, and Master of Business Studies from Vienna University of Business Administration & Economics. Has played a leadership role in a leading European Packaging Company. With over 3 decades of experience he brings a wealth of knowledge and expertise to the Board
Mr Sunil Talati	Independent Director	M.Com, LL.B. and FCA, is a Senior Partner of M/s.Talati & Talati LLP, Chartered Accountants, specialised in Taxation, Auditing and other professional services. He is also past President of I.C.A.I.
Mr Rabindra Jhunjhunwala	Independent Director	B.A., LL.B. (Hons.), Partner at Khaitan & Co, a leading law firm.

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Proxy play to consumption

Financials

Year to March (INR Cr)	FY21	FY22	FY23	FY24E	FY25E
Income from operations	904	1,086	1,475	1,654	2,014
Direct costs	523	654	888	1,001	1,231
Gross Profit	381	431	587	653	783
Employee costs	90	102	123	136	149
Other expenses	157	175	228	255	311
Total Operating expenses	770	931	1,239	1,392	1,691
EBITDA	133	154	236	262	323
Depreciation and amortisation	51	56	64	72	80
EBIT	82	98	172	191	244
Interest expenses	37	34	47	47	47
Non-operating Income	3	4	10	10	10
Extraordinary Income	-	-	17	-	-
Profit before tax	47	68	152	153	206
Provision for tax	14	21	41	39	52
Profit after tax (before MI)	33	47	110	114	154
Share of Minority in profits	-	(0)	(1)	(1)	(1)
Profit after tax	33	47	111	115	155
Adjusted Profit after tax	33	47	98	115	155
Shares outstanding	1	1	1	1	1
Adjusted EPS	37	52	108	126	170

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	85.2	85.8	84.0	84.1	84.0
Depreciation	5.7	5.2	4.3	4.3	4.0
Interest expenditure	4.1	3.2	3.2	2.9	2.4
EBITDA margins	14.8	14.2	16.0	15.9	16.0
Net profit margins	3.7	4.4	6.7	6.9	7.7

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	1.6	20.1	35.8	12.2	21.7
EBITDA	5.9	15.7	52.8	11.2	23.2
PBT	12.0	43.1	98.2	13.8	34.7
Net profit	(8.3)	41.4	108.0	16.7	34.5
EPS	(8.3)	41.4	108.0	16.7	34.5

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Proxy play to consumption

Balance Sheet (INR cr)

As on 31st March	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	9	9	9	9	9
Reserves & surplus	291	331	433	525	649
Shareholders funds	300	340	442	534	658
Total Debt	251	391	497	497	497
Other Long Term Liabilities	29	26	23	23	23
Deferred Tax Liabilities	27	33	36	36	36
Minority interest	-	2	2	2	2
Sources of funds	608	792	1,000	1,092	1,216
Gross block	621	759	816	916	1,016
Depreciation	173	218	282	354	434
Net block	448	540	534	562	582
Capital work in progress	11	48	44	44	44
Total fixed assets	459	588	578	606	627
Investments	18	23	67	67	67
Inventories	145	183	241	257	296
Sundry debtors	177	228	295	318	370
Cash and equivalents	6	11	7	91	156
Loans and advances	49	56	29	32	39
Total current assets	395	502	639	764	928
Sundry creditors and others	141	166	162	217	264
Provisions	105	132	55	61	75
Total CL & provisions	246	299	217	278	338
Net current assets	149	203	422	486	589
Misc expenditure	-	-	-	-	-
Uses of funds	608	792	1,000	1,092	1,216
Book value per share (INR)	330	374	485	587	723

Cash flow statement

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating Profit After Tax Before WC changes	120	134	195	224	272
WC Changes	30	(44)	(179)	20	(38)
CFO	150	90	16	244	234
CFI	(38)	(176)	(87)	(90)	(90)
CFF	(121)	91	67	(70)	(78)
Total Cash Flow	(10)	5	(4)	83	65

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Proxy play to consumption

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROAE (%)	11.8	14.8	25.2	23.6	25.9
ROACE (%)	13.3	14.0	17.3	19.8	20.9
Debtors (days)	71.5	76.5	73.1	70.1	67.1
Current ratio	1.5	1.6	2.6	2.5	2.5
Debt/Equity	0.8	1.1	1.1	0.9	0.8
Inventory (days)	58	62	60	57	54
Payable (days)	67	65	48	48	48
Cash conversion cycle (days)	63	73	85	79	73
Debt/EBITDA	1.9	2.5	2.1	1.9	1.5
Adjusted debt/Equity	0.8	1.1	1.1	0.9	0.8

Valuation Parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	37	52	108	126	170
Y-o-Y growth (%)	(8)	41	108	17	34
Diluted P/E (x)	39	28	13	11	9
Price/BV(x)	4.4	3.9	3.0	2.5	2.0
EV/Sales (x)	1.5	1.2	0.9	0.8	0.7
EV/EBITDA (x)	12	11	7.7	6.6	5.1
Diluted shares O/S	0.9	0.9	0.9	0.9	0.9
Basic EPS	37	52	108	126	170
Basic PE (x)	39	28	13	11	9

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