TCPL Packaging

View: Positive

Viewpoint

Re-initiate positive stance on improving growth prospects

CMP: Rs553

Key points

- **Enhanced capacity and improving consumption environment to drive double-digit growth:** TCPL Packaging Ltd (TCPL) is one of the largest players in the domestic packaging space (with expertise in carton packaging). The company is one of the largest vendors for supplying packaging materials to tobacco, food and other FMCG product companies (including Nestle India, Hindustan Unilever and Godrej Consumer Products) in India. With its new plant in Guwahati getting operational, TCPL's conversion capacity has increased to 52,200 tonne per annum from 43,200 tonne per annum earlier. With demand for consumer goods expected to improve on the back of expected better monsoon (driving rural demand) and improving sentiments in the urban India, the revenue growth of TCPL is expected to grow at a compounded annual growth rate (CAGR) of about 20% with stable operating profit margin (OPM) of 16-17%.

- **E-Commerce and emergence of new players in FMCG space-An ascending driver:** E-Commerce is a rising trend in India (especially in the urban markets) with emergence of players, such as Flipkart, Amazon and Snapdeal, which are scaling up in India and are conscious about protective packaging. The E-Commerce space is expected to grow in strong double digits providing a long-term opportunity for packaging players (likely to contribute 10% of the order book in the near to medium term). On the other hand, emergence of players, such as Patanjali (ventured on ayurvedic platform) gaining strong foothold in the domestic FMCG market or beverage players, such as Paperboat (giving importance to organic packaging) provides bigger opportunities to companies, such as TCPL, to scale up in the long run.

- **Strong financial background; leverage position is comfortable:** TCPL has a strong financial record with revenues, operating profit and profit after tax (PAT) growing at a CAGR of 20%, 24% and 47% respectively over FY2011-15. The OPM of the company has improved by 16.5% in FY2015 (to further 17.5% in M9FY2016) from 14.5% in FY2011 on the back of operating efficiencies. The company has better leverage position in the packaging industry with debt-equity ratio standing at 1.4x. With operating cash flows to improve in the coming years and no major capital expenditure going ahead, we expect the debt-equity ratio to further improve in the coming years. The return ratios have consistently improved and RoE and RoCE currently stand at 32% and 23% respectively.

- **Trading at discount to packaging peers:** TCPL would be one of key beneficiaries of the improving demand environment in the FMCG space. Further, the rising trend in the E-Commerce space would add on to the overall revenues in the coming years. We expect TCPL's revenues and PAT to grow at a CAGR of 19% and 28% respectively over FY2015-18. Despite consistent operational performance, TCPL is trading at 7.2x its FY2018E earnings, which is at a discount to its peers, such as Huhtamaki PPL and Essel Propack, which are trading at 15x and 12x respectively their FY2018 consensus estimates. Hence, in view of consistent operating performance, better earnings visibility and discounted valuations, we have re-initiated our positive view on the stock with an upside of 20-25%.

Valuations (stand-alone) Rs cr

Particulars	FY2014	FY2015	FY2016	FY2017E	FY2018E
Net sales	394.9	497.8	581.3	699.4	837.7
Operating profit	61.2	82.0	97.8	118.0	138.8
OPM (%)	15.5	16.5	16.8	16.9	16.6
PAT	12.5	32.2	36.0	49.8	66.5
EPS (Rs)	14.4	37.0	41.3	57.3	76.5
P/E (x)	38.3	14.9	13.3	9.6	7.2
EV/EBIDTA (x)	10.1	7.7	6.6	5.0	3.8
RoE (%)	15.1	31.9	27.9	30.2	30.8
RoCE (%)	16.5	23.0	23.6	27.7	31.9