TCPL Packaging

View: Positive

Viewpoint

Acceleration in earnings to catch up with valuation

CMP: Rs255

Key points

- **Strong player in domestic packaging space:** 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 supplier of packaging materials to tobacco, food and other FMCG product companies including large players such as HUL, ITC, GSK Consumer, Godrej Consumer Products and Marico. The strong clientele and improving market share led the company's revenues to grow at CAGR of 26% over FY2010-13 (volume growth of 16% vs a 12% volume growth in industry).
- **Revenues to grow at 20%, OPM to improve gradually:** The financial year 2013-14 can be considered as an aberration when TCPL's revenues had grown by just 6%, affected by a slowdown in the consumer goods segment (the growth rate of the FMCG sector moderated to single digits in the last two to three quarters of FY2014). With a stable government in place and improving sentiment against the backdrop of declining inflation and improving macro environment, we expect the consumer goods companies to grow at a faster rate in the coming years. Thus, we expect TCPL's revenues to grow at a CAGR of over 20% (with a volume growth of 18-20%). With better operating leverage, TCPL's operating profit margin would inch up to about 17% in the next two years (from ~15% in FY2014).
- **Comfortable balance sheet; return ratios to see strong traction ahead:** Despite a greenfield expansion plan of Rs70 crore (to be funded through debt and internal accruals) in FY2015, the debt/equity ratio would remain unchanged at the current levels of about 1.5x. Going ahead, a strong earnings growth and better working capital management would lead to better cash flows. With no major capital expenditure plans over the next two to three years, we could see a substantial reduction in debt by FY2017. The reduction in debt will not only fuel a growth in the earnings (which are expected to grow at a CAGR of 55% over FY2014-17), but also result in healthy return ratios (making the company one of the better packaging companies compared with the peers).
- **Valuation at discount to peers, potential upside of 25-30%:** A strong vision with a proven track record of the management, increasing market share with better supply chains, commissioning of a new facility (in Guhawati) and potential pick-up in volumes from its clients would significantly improve the growth prospects of TCPL in the near future. Further, an enhanced focus on introducing value-added products through different prototyping and exploring overseas opportunities by expanding the export reach would improve the financial performance of the company. At the current market price the stock is trading at 7.4x FY2016E earnings, which is at a discount to its industry peers. Hence, in view of the better earnings visibility and discounted valuations, we see scope for 25-30% returns from the current level.

Valuations

Particulars	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Revenues (Rs cr)	373	395	493	638	780
Growth YoY (%)	*32*	*6*	*25*	*30*	*22*
EBITDA (Rs cr)	56	61	82	109	133
OPM (%)	14.9	15.5	16.7	17.0	17.0
Adj. PAT (Rs cr)	14	13	21	30	41
PAT margin (%)	3.6	3.2	4.3	4.7	5.3
Adj. EPS (Rs)	15.5	14.4	24.6	34.7	47.2
P/E (x)	16.4	17.7	10.4	7.4	5.4
P/B (x)	2.8	2.5	2.1	1.7	1.3
Ev/EBITDA (x)	6.5	5.9	4.4	3.3	2.7
D/E (x)	1.6	1.6	1.6	1.3	0.9
RoE (%)	17.3	14.2	20.0	22.8	24.6
RoCE (%)	12.0	11.7	13.7	16.7	20.2

- **Key risk:** Any delay in pick-up in demand from the consumer goods companies or any increase in the prices of the key raw materials would affect the profitability and earnings of the company.

Peer comparison

Peer valuation	EPS (Rs)		P/E (x)		D/E (x)		RoE (%)	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
TCPL packaging	24.6	34.7	10.4	7.4	1.6	1.3	20	23
Manjushree Techno.	30.0	36.2	13.5	30.0	1.5	1.3	22	21
Polyplex corp.	28.1	36.0	9.6	7.5	0.8	0.7	4	5
Essel propack	9.2	11.8	14.0	11.0	1.0	0.8	18	19

Company background

TCPL (formerly known as Twenty-First Century Printers) is one of India's largest manufacturers of printed folding cartons. It operates out of six manufacturing units; three in Silvassa; two in Haridwar; and one in Goa. Its product portfolio includes printed blanks and outers, folding cartons, litho lamination, plastic cartons, blister paper, shelf ready packaging, corner glued cartons, and liner cartons for use in cigarette, liquor, food and beverage, bakery, FMCG, automobile, stationery, pharmaceuticals, and airline industries. It also exports printed cartons to the United Kingdom, the Netherlands, the United Arab Emirates, Bangladesh etc. Exports constitute nearly 20% of TCPL's annual revenues. The company has recently entered into a technical collaboration with AR Packaging Group AB. The objective of the agreement is a strategic partnership mainly in the areas of manufacturing, sourcing, sales and marketing in India for the solid folding carton market. This will help in improving the quality of packaging product and capturing market share in the coming years.