

TCPL Packaging

Viewpoint

Positives priced in; book profit (38% gains in four weeks)

CMP: Rs762

Key points

- ◆ TCPL Packaging (TCPL) stock price has run-up by 38% in the past one month on the back of strong operating performance in FY2016 and improving growth prospects for the paper packaging industry in the long run. Revenues grew by 19% YoY (largely driven by strong double-digit volume growth) and the operating profit grew by 23% YoY in FY2016. Being one of the largest packaging players, TCPL would achieve strong double-digit revenue growth (largely volume driven) in the near to medium term on the back of improvement in consumer demand, growing e-retailing business and emergence of new players in the FMCG sector.
- ◆ In addition to operating efficiencies, improvement in working capital will remain a key focus area for TCPL in the coming years. With no major capex planned, TCPL would also see improvement in cash flows and strong return ratios in the coming years.
- ◆ However, the recent sharp run-up in TCPL's stock price (38% since our viewpoint on May 23, 2016) have priced in all the above positives. We believe that the current valuation of TCPL at 10x FY2018 earnings is fair, capping any significant upside from the current level. Hence, we recommend our investors to take home handsome gains within short span and wait for a better point to re-enter the stock.

Valuation					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)	53.2	20.7	18.5	13.4	10.0
EV/EBIDTA (x)	13.1	9.9	8.5	6.6	5.1
RoE (%)	15.1	31.9	27.9	30.2	30.8
RoCE (%)	16.5	23.0	23.6	27.7	31.9

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